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ECONOMIC AFFAIRS

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28 August 1984

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ECONOMIC DEVELOPMENT ZONES

SHANGHAI FOREIGN CAPITAL TO REACH \$300 MILLION

OW291253 Shanghai JIEFANG RIBAO in Chinese 24 Jun 84 p 1

[Article by reporter Gao Xiaoxiao]

[Text] Shanghai has adopted more flexible and varied forms of economic cooperation with foreign countries since the State Council decided to further open up the 14 coastal cities. Negotiations have been completed for nearly 100 projects. Some of the projects have been approved and others are awaiting approval. These projects take the form of joint ventures with Chinese and foreign investment, cooperative operations, compensatory trade, equipment rental, technical transfer and independent operation by foreign firms through their own investment. Most of the projects will be finalized within this year. More foreign and Hong Kong firms have invested in Shanghai because of the conveniences and favorable treatment given foreign investors in Shanghai.

Shanghai has scored great achievements in economic cooperation with foreign and Hong Kong firms in recent years. Approval has been given to the establishment of 11 joint ventures, including 4 each from Hong Kong and the United States, and 1 each from Britain, Switzerland and Belgium. They deal in such commodities as woolen textiles, toys, elevators, automatic meters, essences, airline food, pharmaceuticals, offshore rigs, plate glass, telephone equipment and others. Seven of these enterprises are in satisfactory operation. In addition 12 jointly operated projects have also yielded fairly good results. Among them are the Cuishan [5050 2082] Japanese Restaurant jointly operated by China and Japan and located at the Jinjiang Club; the color printing business jointly operated by Shanghai and Hong Kong and located at the Shanghai Picture Center; the car rental business jointly operated by Jianhua Company and Thai businessmen; as well as the microcomputer maintenance and repair service jointly operated by Shanghai and Hong Kong. More than 150 agreements on compensatory trade have been signed in recent years. Most of the projects concerned have been put into operation, covering textiles, handicrafts, light and chemical industries, meters, commerce, the publishing industry and agriculture. Thanks to compensatory trade, the equipment of these sectors has been upgraded and considerable benefits have been gained.

Since the 14 coastal cities were further opened up to the outside world, more varied forms of economic cooperation projects have been negotiated and agreements have been reached. Joint ventures, sole investment, compensatory trade, rental trade, foreign loans, import of equipment and other forms are used, covering textile, electro-mechanical, metallurgical, chemical, handicraft, light, meter, shipbuilding and building material industries as well as tourism. The projects also cover those areas where foreign capital was seldom used in the past, such as in the petroleum and publishing industries and commerce and enterprises in suburban counties. The total investment in the nearly 100 projects that have been negotiated and approved or are pending approval is currently some \$300 million. Most of these projects will be finalized within this year.

Of the 100 projects, the recently approved joint ventures include the Shen-da [3947 6671] Shipping Service Company Limited jointly owned and operated by the Shanghai Offshore Oil Service Corporation, the Cha-bai-da [2686 4102 6671] Company of the United States and the Hai-da [3189 6671] Company of the United Kingdom. This corporation provides special shipping services for offshore oil prospecting and development. Among the jointly operated projects are the Color Printing Company jointly operated by the Shanghai Jianhua Company and the Ze-wei-yang-hang [3419 0251 3152 5887] of Hong Kong; and a beauty salon jointly operated by the Jinjiang Hotel and the Lai-li-ya [5490 5461 7161] Group of France. Among the compensatory trade projects is an agreement signed between the Shanghai No 2 Daily Use Chemical Plant and the Ba-er-si-duo-fu [1572 1422 2448 1122 1133] Company Limited of the Federal Republic of Germany on using foreign technology and equipment to produce 100 metric tons of Nivea [1200 4850] skin cream annually.

Responsible persons of the departments concerned have told this reporter that these forms of cooperation have been adopted to properly handle the rights and interests of both sides on the principle of equality and mutual benefit. In the future Shanghai will continue to adopt more flexible measures to enable foreign investors to make profits.

CSO: 4006/690

ECONOMIC DEVELOPMENT ZONES

TREND OF FOREIGN INVESTMENT IN SHANGHAI NOTED

HK050849 Beijing XINHUA Hong Kong Service in Chinese 0335 GMT 4 Jul 84

[Report: "Foreign Businessmen Are More and More Enthusiastic About Investing Money in Shanghai"]

[Text] Beijing, 4 Jul (XINHUA)--According to a report carried in Shanghai's WEN HUI BAO: Since the beginning of this year, especially since the announcement by the State Council of the decision on opening the 14 coastal cities to the outside world, foreign businessmen have become more and more enthusiastic about investing money in Shanghai. According to the statistics of the Municipal Investment and Trust Company, there have been more than 2,000 visits by foreign businessmen in the past two months.

The report said: These businessmen, who come from the European and American countries, Japan, and the Hong Kong region, have arrived in Shanghai to hold concrete talks with the relevant departments on various forms of investment involving items of joint ventures, wholly-owned enterprises, cooperative operation, renting of facilities, and compensation trade.

In this "enthusiastic intention of investment," especially noteworthy is the sharp increase of interest of investment in Shanghai by the industrial circles of Japan.

The report said: Judging from the condition of utilizing foreign investment in the first half of the year, a remarkable feature is that the trade of tourist guest houses has quickened the pace of utilizing foreign capital. At present, the contracts already concluded include three guest houses and apartments each 30 or 40 stories in height, and talks on another batch of items are currently under way. These items include five-star hotels. Extensive contacts in regard to other trades are also in progress, and agreements on some 100 items have been reached pending the approval of the upper-level authorities, which involve such trades as textiles, machinery and electrical engineering, metallurgy, chemical engineering, handicrafts, light industry, meters, shipping, building materials, petroleum, publishing, and commerce, with the total amount of investment reaching \$300 million, and some of the bigger items are expected to be approved.

The report said: It is predicted that in the latter half of the year, greater breakthroughs will be achieved by Shanghai in the utilization of foreign capital, and the number of contracts signed as well as the total amount of money involved in the transactions will approach or exceed the sum achieved in the years from 1979 to 1983.

ECONOMIC DEVELOPMENT ZONES

BRIEFS

GUANGZHOU FIRM FOR FOREIGN IMPORTS--Guangzhou, 28 Jun (XINHUA)--A new corporation was inaugurated here today to establish joint ventures with overseas firms, and import technology and equipment. Operating under the Guangzhou City government, the Guangzhou Trade and Development Corporation will also set up business and develop new service trade. Its 11 subsidiary companies will handle manufactured goods, non-staple food, cereals, edible oils and aquatic products, and provide commercial, tourist, catering and consultancy services. The corporation will issue shares to both urban and rural residents and units. All staff will be employed by contract. The general manager will assume full responsibility for operation under the board of directors. Businessmen from Europe and Southeast Asia have already contacted the new corporation. [Text] [OW282108 Beijing XINHUA in English 1513 GMT 28 Jun 84]

INTERNATIONAL COOPERATION SHOW OPENS--Tianjin, 9 Jul (XINHUA)--Over 30 overseas firms showed interest in starting joint ventures with Tianjin at an exhibition on international cooperation projects which opened here today. The 6-day exhibition, sponsored by the British International Conference Exhibition Group, features products and catalogues from more than 80 firms in Hong Kong and 18 foreign countries including Britain, Italy, the Federal Republic of Germany, France, Holland, the U.S., Australia, Switzerland, Belgium, Spain and Denmark. Representatives from more than 30 overseas firms at the exhibition today expressed willingness to look into the possibilities of setting up joint ventures with Tianjin partners. Cooperation projects will cover machine-building, electronics, foodstuffs, chemicals, textiles, light industry, construction and communications. Tianjin is among the 14 coastal cities China recently opened to foreign investment. [Text] [OW091358 Beijing XINHUA in English 1324 GMT 9 Jul 84]

CSO: 4020/167

READJUSTMENT OF SHANGHAI'S ECONOMY DISCUSSED

Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 6, 15 Jun 84 pp 17-19

[Article by Huang Daming [7806 1129 2494]: "The Strategic Situation and Initiation of Shanghai's Economic Readjustment"]

[Text] In the readjustment of economic relations throughout the nation, the readjustment of Shanghai's economic relations assumes major significance. Readjustment of economic relations, in a macroeconomic sense, demands the establishment of conformity with the basic developmental laws of socialist economics, while enabling the coordinated development of all sectors of the national economy. The microeconomic view would be that it invigorates every single sector of the economy. The demands of Shanghai's economic readjustment are reflected in concrete terms in its laying a solid foundation for vigorous economic developments and enabling key industrial departments to be ahead of others in the modernizations, thus contributing in ever larger measure to the "four modernizations" of the country.

At present, the difficulties in the readjustment of Shanghai's economy are very great, but the general situation is quite favorable. We must seize this favorable opportunity, make the best use of the situation and overcome all difficulties. As to readjusting Shanghai's economy, apart from the aspect of its economic organization which awaits a uniform disposition of a national character, the main contradictions of its industrial economy are still the debilitating diseases of old industrial bases, an ever-widening gap in the quality of its products from those of foreign manufacture and an increasing narrowing of the gap with domestic products from other areas. However, Shanghai is located in an extremely favorable strategic position, added to which are the policy of the party and a series of powerful measures to readjust economic relations. All these circumstances will provide the conditions that will enable it to surmount the existing difficulties. Particularly also such positive factors as the utilization of foreign credits and the importation of advanced technologies, combined with Shanghai's predomnant industrial foundation, can, if a certain speed is maintained, provide "the breath of new life." I will now present my personal views in 10 areas:

(1) The Strategic Situation for Ushering in a New Overall Situation

The superior conditions that Shanghai possesses are: its gross industrial output value, which accounts for one-ninth of that of the whole nation; a scientific and technological work force of about 350,000 persons; a harbor that can handle over 90 million tons; excellent conditions for a composite development of economics, science and technology and the social environment; and the possession of the dimensions of a large industrial base and of an international port city. However, its industrial installations are out of date, its technological level is overaged, it owes much money for city transformation and social construction, the encumbrance is heavy, making it difficult to change the situation around, the areas of indebtedness are wide, the amounts are large and time is short. The difficulties of laying a foundation for a vigorous development during the Seventh 5-year Plan are great indeed. To lay the foundation for a vigorous development of the economy, it is necessary, first, to have key products attain the international quality standards of the early 1980's; second, the achievement must be accomplished within 6 and $\frac{1}{2}$ years; and, third, there must be corresponding conditions of available capital. It is therefore very necessary to explore the strategic time and the strategic position and policy for its economic readjustment.

First of all, the center of international economic developments tends to shift to the area of the Western Pacific (or the area of the Asian Pacific). In recent years, experts in international economics have predicted that the investment trends of the international banking consortiums all indicate that the center of international economic developments will shift toward the area of the Western Pacific, and they recognize that with respect to investments, natural resources, markets and science and technology that areas has the best developmental prospects. This trend is certainly very favorable in Shanghai's strategy for economic development and must be duly appraised as such.

Next, the further opening up of Shanghai exactly accords with the international economic trend. Shanghai is located in the center of the western shores of the Pacific and at the head of a large communications artery connecting it to a market of 1 billion people. Its export processing zone is about to be opened up, and foreign investment business is now in the process of being developed. Numerous organizations to handle international finance and trade are being established in Shanghai. All these facts allow one to predict that conditions are now gradually taking shape that will restore Shanghai as a center of Far Eastern finance and trade, and that is just the strategic position needed by Shanghai in its strategy of economic development.

Furthermore, the policy of further relaxing the importation of foreign capital will help accelerate Shanghai's economic transformation. Importing foreign capital and advance technologies will lay the foundation for the Seventh 5-year Plan programming and will provide logistical support for a vigorous development of the economy in the 1990's, thus

playing a very important role. The tasks that Shanghai's industry will have to cope with are inadequate capital and the insufficient importation and absorption of capital. The policy of relaxation toward the utilization of foreign capital is therefore an extremely timely decision of a strategic nature.

(2) Readjusting for an Advantageous Production Organization

Shanghai has already done a considerable amount of work toward the present dominant position of its comprehensively developed industry, through transformations and promotions and through compliance with the need for "pushing toward the outside and cooperating domestically," but its readjustment of the economic organizational structure is far from satisfactory. It has not been able to reorganize systematically and this leaves the situation far from adequate as far as laying the foundation for a vigorous development of the economy is concerned.

The consumer industry shows the largest output value and has extremely close links to the livelihood of the people and the needs of the market. For instance, textiles are for the most part sold in the local market, though they also account for about half of the total value of exports. However, textiles and clothing were not systematically developed. Industry in the interior has developed by leaps and bounds, and Shanghai's share in the market is on the decline. For the time being, it is difficult to turn the situation round and change the overall state of great difficulties now being experienced with the present products. Although Shanghai is an industrial base of a comprehensive character, the comprehensive nature of its industry requires further readjustments to bring its true superiority into full play. It is therefore necessary to adjust the organizational structure of its industry and to establish trade centers for its outstanding industries. Shanghai has about 147 industries, which cannot all be evenly promoted and advanced. It is necessary to establish on the basis of the three-market requirements a certain number of "trade centers" at the comprehensive industrial base of Shanghai or to be of a representative nature and thereby usher in a new overall situation of "pushing toward the outside and cooperating internally."

The trade centers are the guiding elements in overall composite industrial planning. Demands made on trade centers are, first of all, specialization, seriation and consequently also the institution of cooperation among horizontally related trades. Trade centers should have as their main objective the production of main installations, components and parts. As to separate fittings, they should mainly sign cooperative contracts with medium and small factories, collective enterprises and village and township enterprises, which may also include cooperative relations within the same economic plan area. In the production of main installations the primary objective should be to attain or even surpass the quality level of international production. In contracts of cooperation the main objective should be joint operations in new technologies or new raw and other materials. The business relations between the factory of the main installation and the cooperating factory shall be completely established by concluding the processing or order for goods contracts.

The large, medium and small factories in Shanghai, about 24,000 in number, must be "plaited" into a certain number of large "braids." That means we must bring about a well-planned and well-proportioned benign circulation, centered on the particular line of trade, thereby also lending impetus to the medium and small factories. Judging by trades presently in a dominant position, they could be roughly organized into 12 large sets, tentatively, to be: In the first line of consumer goods, (1) a center for clothing and textiles, (2) a center for electrical household appliances, (3) a center for chemical goods of everyday use, (4) a center for the food-stuffs industry and (5) a center for cultural and educational articles; in the second line of the installations and equipment industry, (6) an electronic and electric center, (7) an instrument and measuring device center, (8) a heavy machinery center (for power stations, shipbuilding, oil exploration platforms, airplanes, automobiles, spaceflight equipment, etc.) and (9) a center for precision machinery (numerical controlled lathes, robots, medical apparatuses and instruments, etc.); and a third line for industry working with new types of materials, (10) a center for high-grade alloy steel and steel materials, (11) a center for the fine chemical industry and (12) a center for construction materials. These major industries must be gradually designated as the basic feature of Shanghai's composite industrial development. Lining them up in this way will help consolidate their superior position and organize favorable circulation. It will help build the foundation for vigorous development and organize the "push toward the outside." It will particularly help pave the way for transformations and developments and help clarify our struggle objectives.

(3) Trade-wide Planning Is an Effective Measure Toward Rationalization of the Organizational Structure of Production

Replacing department-wide planning with trade-wide planning is an important link in the restructuring of the planning system. In the past department-wide planning for industrial management departments was a form of planning for only those industrial units belonging to a particular department and was not planning for the development of the entire society. It led to duplications in factory building and irrational developments with adverse effects on the proper balance in finance, material resources and credits.

Trade-wide planning is based on a readjustment of the organizational structure of production, as it will also promote technological progress and a well-planned and well-proportioned development between the members of a trade and within each member. Trade-wide planning is therefore in essence the development of properly proportioned relations between the industrial structures. Without the development of proportionate relations there can be no trade-wide planning to speak of. It would then be difficult to achieve a favorable circulation of production and a control of the scope of investments for capital constructions, as it would also be difficult to achieve balances in the three major areas. Trade-wide planning must therefore comprise planning for: (1) proper proportions for single trades within the entire trade plan; (2) the leading trade among single trades and the proportionate shares between related trades; (3) the ratio of development of the simple reproduction and extended reproduction of :

trades; (4) the ratio of development of technological structures and of the organizational structure of the enterprises of the trades; and (5) the designation of the key items and measures to be adopted in efforts to quadruple production. Trade-wide planning, having been approved by the trade associations, is to be carried out by organizations of enterprise scope, using economic levers to effect adjustments in order to achieve the objective of obtaining large production from little investment.

Trade-wide planning is helpful for the readjustment of the economy and for the readjustment of the organizational structure of production. Guided by trade-wide planning, there shall be an appropriate division of labor for the production of main installations and of components and parts, and there will be any opportunities for closures, suspensions, mergers and retooling, including the utilization of commune and brigade factory buildings.

(4) Establishing Corporations of Enterprise Nature Is a Major Move in the Separation of Enterprise Management from Governmental Administration

The second phase in our tax reform was the promotion of the separation of government administration and enterprise management; after the commune management had been separated from government administration, the commune industries became village and township enterprises. This trend is a major move to have business units abandon the system of "eating from the big pot" and moving toward economic accountability. The new industrial leadership setup will certainly be jointly organized by the administrative departments of the government, the corporations of enterprise scope and the trade associations. The administrative departments of the government will mainly act on tasks ordered and demanded by their higher authority in determining the principles, policies and regulations concerning economic developments to be integrated with the actual conditions of this city. They will transmit the state's plan tasks, items for technological renovation and the extent of capitalization to the corporations of enterprise scope and will furthermore, by means of economic levers and necessary administrative measures, exercise supervision and intervention. The corporations of enterprise scope will accept the tasks communicated to them by the state and will urge their trade associations to formulate trade plans; they will pursue the promotion of their trades and the regulation of the market through business activities or through contractual relations. The trade associations are mass organizations administratively in charge of the trades. In implementing policies, studying developmental plans and solving contradictions, they can appropriately handle, in an organized and planned manner and employing the method of business discussions, the different demands by corporations of the staterun enterprise type, by city and collective enterprises and by village and township enterprises, but this is not passing everything on to them. The member units of the trade associations are operating their businesses independently and assume sole responsibility for profits and losses. They are subject to regulation by means of economic levers. In sum, rendering corporations into enterprises was one of the six campaigns

listed by the Shanghai city government in its report to this year's National People's Congress. It is one of the extremely effective measures in the readjustment of the organizational structure of our trade, in promoting trade-wide planning and in rendering business operations into activities of enterprise nature and can bring about a change from the system of "eating from the big pot" in all our enterprises.

(5) The Strategic Position of Collective Industries in the Readjustment of the Economy

We must not ignore the position of collective industries in Shanghai in the strategy of industrial and economic development.

Under the conditions of having trade-wide planning replace department-wide planning, of having a division of labor in trade cooperation between main installation manufacturers and manufacturers of parts and fittings and of having the difficulties of old state-run factories effect a turn around in their products and of having great adaptability in the collectives, the collective industries have become an invigorating element in the readjustment of the entire industrial economy, and their share in the economy will be steadily on the increase, demanding that these collective industries be brought into the planning of the entire trade and that overall arrangements be made for their well-planned and well-proportioned development. At the same time, their steeply rising proportion in the output value should be increased as much as possible by following the principle of the division of labor between manufacturers of main installations and those of parts (fittings). According to conditions throughout the entire city, there is still a margin for a further rise of one or two times in the output value of the collective industries. In the development of the collective industries, it is quite permissible for small-scale enterprises and large-scale enterprises to take up contractual relations for ordering goods according to trade-wide planning to avoid duplication of production and irrational investments in capital constructions. That means that the collective industries may themselves expand marketable assortments of goods and enter into processing and goods-ordering contracts with large-scale enterprises, and in their joint operations with the large-scale enterprises they may become satellite factories, etc. The village and township enterprises especially will play an important role in the future in the promotion of processing industries for agricultural and sideline products, in the animal feed, foodstuff, construction materials industries, in the repair of agricultural machinery and in the construction of small power stations for villages, in short, in the promotion of the industrialization of agriculture and the electrification of rural life.

(6) A Center for the Development of Science and Technology and the Importation of Foreign Capital and Advanced Technology

Corresponding to the trade centers, a center for the development of science and technology should be established. According to the needs of the market, this center shall speed up the improvement and updating of products, implement transformations and develop new approaches. Combined with the

readjustment of the organizational structure of prefectural industries, a relaxation of the importation of foreign capital and advanced technologies and the establishment of a corresponding center for science and technology are questions of major policy decisions for Shanghai in its efforts to create by 1990 the foundation for a vigorous development of the economy. We must seize the opportunity, link up with the international investment trend and, in a corresponding move, relax our policies and do all we can to make good use of time and raise our standards. "Don't let slip an opportunity; time and tide wait for no man."

(7) Modernizing Preferential Trades Before Others Has Strategic Significance

It would be unrealistic to expect Shanghai's entire industrial organization to have accomplished by 1990 the modernizations that would be a foundation for the vigorous development of the economy. It would, however, be quite permissible first to modernize certain preferential trades. The equipment industry plays a decisive role in the improvement of standards throughout the entire industry of the city. A higher level of modernization in the equipment industry will provide the foundation for modernizations in all other industries. Among the three factors for the improvement of the quality of products, namely equipment, raw and other materials and technology, the factor of equipment plays a decisive role.

Taking Shanghai's equipment industry (including new technology industries) as the basis, importing foreign capital and advanced technology in a systematic and planned manner and concentrating our efforts on improvements on this industry first would provide all other industries with conditions for continued improvements. It would at the same time induce comprehensive developments in a planned and proportionate manner in the raw and semifinished materials industries. The equipment industry is the heart of the comprehensive industrial base that Shanghai is. The Seventh 5-year Plan for Shanghai should give full consideration to the greatest efforts to promote the prior development of the mechanical, electrical and measuring device industries. To lay the foundation for a vigorous development of the economy, it is not necessary to attend to each and every branch of industry. We must particularly point out that Shanghai must strive hard to achieve higher-quality standards for its products in advance of others and in excess of international standards in order to be able to "push toward the outside and effectively cooperate domestically."

(8) Scientific Management Must Go Along with Readjustments of the Economy

Only if modern science and technology are accompanied by modern scientific management can it fully develop economic results. For instance, at the Donghai Valve Factory no new equipment was added, but the original equipment was transformed into an assembly line, with the result that output doubled. At the Shanghai Knitted Headware Factory the change of a pattern originally required 3 days of work by two persons. Now, with

the use of a microcomputer, the work is accomplished by one person in 2 hours. This shows that it is urgently necessary to grasp firmly the training in modern scientific management in such fields as systems engineering, value engineering, operational research, linear programming, electronic computer management and economic information management. We must emphasize the need, to lay a firm foundation for a vigorous development of the economy and must emphasize that this includes simultaneous advances in scientific management.

(9) The Urbanization of Satellite Cities and Towns

The social development of urban areas must be simultaneous with the development of industry, science and technology. The layout of industry is the foundation for the overall arrangement of the cities. The overall plan for the industry determines the pattern of the overall city building plan. Shanghai is now, first, divided into areas according to key industries, such as Baogang, Gaoqiao, Caohejing, Shihua, etc. Second, the city government made it one of the six major campaigns of the year to establish linkages by trades and with village and township enterprises, guided by the trade-wide planning for corporations of enterprise scope, led by key trades and combined with efforts to eliminate the inflationary growth of the city area (industries accounting for over 50 percent of the gross industrial output value are concentrated in the central city area). The key industries are to move gradually toward the manufacture mainly of main components and main installations. Enterprises in the villages and towns have advantageous conditions with respect to factory buildings, manpower and capital funds and should link up for processing and for orders for spare parts and fittings or should develop joint operations. This is moving toward trade cooperation in production. Third, with the key production areas or trade cooperation areas as the bases, we must establish living areas, also to be educational, cultural and communications network areas, but services for the people's livelihood must be provided at an even better quality than in the central urban district; salaries and wages must be differentiated by categories of work, and welfare and census relations must be the same as in the city. Comprehensive blocks like these must be the basic shape of Shanghai's satellite towns. In this way, the roundabout transportation of industrial raw materials and semifinished articles to end products can be greatly reduced, the pressure on the means of public transportation to move 12 million people every day would be alleviated or resolved and after eliminating the inflationary growth in the central urban district, the modernization in city building could become a reality.

(10) Harbor Construction To Be Part of Our Development Policy

In the development of port cities, the conditions of the harbor must be given special attention and its role must receive our fullest attention.

Large trading ports are the concrete manifestation of a multiplicity of conditions. They must accordingly coordinate industrial bases, imports, exports and transshipments (return cargo), financial trading, ordinary

communications and telecommunications, economic information, travel facilities, etc. Singapore is already a day and night harbor where work is going on 24 hours a day. Large ports must have repair facilities for vessels of over 100,000 tons. Singapore has the great advantage of ship repair facilities and the capacity of building oil exploration platforms, second to only America. It has over 70 large and small ship repair dockyards. South Korea is second in the world in shipbuilding. Shanghai is located in the middle and lacks the superior facilities found to the north and to the south. Northeast of Shanghai there is also Japan. If Shanghai does not soon build deepwater berths, it will no longer be able to accommodate ships of international lines. International trading ports must fulfill many conditions and many functions; even if we start now, we could put the new construction to use only around 1995 at the earliest. We may say that Shanghai port is encircled by Kobe (which already exceeds Yokohama), the ports of South Korea and the port of Singapore, and a competitive contest between the ports in the coming years cannot be avoided. We must therefore treat harbor construction as a major condition in Shanghai's economic readjustment, and it is certainly not too early to speak of it. At the same time, the oil exploration in the South China Sea is loudly knocking at the door. We must realize that aside from limited quantities of local produce for export, Shanghai's large business in the future will be the large quantity for import, export and transshipment business. Shanghai's port must therefore be developed toward a shape capable of handling the business, in order to operate uniformly imports and exports by sea, land and air and to handle passenger transportation or to organize through transportation, develop agency business and direct it all with electronic computers and thus to develop it into an international trading port of high efficiency and high standards of service. This alone will make it conform to the trend of internationally economic developments in the Western Pacific.

Readjusting the economy should not only show after 1990 to have served production, science and technology and management but should have equally served in port construction. It goes without saying that the harbor facilities in the Huangpu inner harbor are overaged. At present the favorable situation of further opening up cities along the sea coast and the relaxation regarding imports of foreign capital and advanced technologies and the overall planning, transformation and new construction to expand further the functions of this "composite port city" have already become a matter of urgency that permits no further delay.

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INDUSTRIAL PROBLEMS OF SHANGHAI DISCUSSED

Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 6, 15 Jun 84 pp 13-16

[Article by Li Jiahao [2621 1367 6946]: "Inquiry into the Challenges Faced by Shanghai's Industry and Its Path of Future Development"]

[Text] Shanghai's industrial front achieved a very rapid development by earnestly implementing the policy of "readjustment, restructuring, reorganization and upgrading," and by exploring the new road of "pushing outward, cooperating domestically, reforming and developing."

However, we must also take note of the fact that in the past few years Shanghai's industrial front has almost every year met with certain unforeseen difficulties. We must take the initiative in studying and analysing their reasons and seek solutions for them. The present article attempts an inquiry into some of these problems.

I.

Shanghai's industry is facing very real and serious challenges, essentially of the following nature:

1. There has been a gradual decline in the superiority of the assortment and quality of goods manufactured by Shanghai's industry, their lead over the products from other places is quickly diminishing and they are still far below international standards. Other places are making great efforts to catch up with and overtake Shanghai's production. Factories in many places have better equipment and more favorable material conditions than in Shanghai. With the aim of catching up with an overtaking Shanghai, they have adopted concrete measures and in certain products have indeed surpassed Shanghai. As to Shanghai's objective of catching up with and surpassing the advanced international levels, its measures were not substantial enough and the pace was too fast. A considerable portion of Shanghai's products not only were incapable of "pushing outward" but were also threatened by the double menace of large imports of foreign equipment and of high-class products from other Chinese provinces.

2. Some industries are not sensitive enough to market changes and are not sufficiently concerned about upgrading and substituting older models with newer and better ones about technological progress. As a result there is the critical danger that some goods face the loss of their markets or even of being eliminated through competition, while there are no plans or technological reserves to cope with this dangerous situation. For instance, the assortment of Shanghai dyestuffs does not fit the needs of the textile industry. The entire industry gave all its attention only to the old products which for a time had been money-makers but paid no attention to the production of intermediates. The structure of the industry was irrational and there was no technological preparedness to adapt to the needs of the textile and other industries for new products and new techniques, thus resulting in the overstocking of products in 1983.

3. Increases in production are hampered by the twofold restraint of overaged technologies and equipment as well as an overall saturation in production. Although Shanghai's industry has a considerable amount of equipment at its disposal, over 70 percent of it is of the 1950's, 1960's or even older vintage. Shanghai's industry has the advantage of its tradition in technical operations, managerial fundamentals and coordination and cooperation. Fortunately, it can still produce high-quality products under difficult conditions. The problem is that if there is a longterm lagging behind in "hardware" and reliance only on the temporary preponderance of "software," it will be difficult to cope with the challenges that are daily gaining in severity and difficult to change the longstanding situation of Shanghai's industry exhibiting a condition of "production squeezing auxiliary services, auxiliary services squeezing warehouses and the warehouses being pushed out into the streets," with consequences that are getting more and more serious.

4. Shanghai's pace of creating production capabilities by technological renovation is below the speed of product value, and profit increases are demanded by the development of the national economy. For many years, Shanghai has had an old industrial base that has turned in much state revenue and invested very little in its own technological renovation. If we now want to rely on a production capacity that is not yet fully utilized to increase output value at an annual rate of several billion yuan, there seems to be little margin for that. We therefore have to introduce new production capacities, but the present pace of investments that would create production capacities is far slower than the rate of increases demanded by the developmental needs of the national economy. If this is allowed to continue, there is great danger ahead, because without the technological innovation that would guarantee production increases, it would certainly lead to running only available equipment to its limits, working extra shifts, adding work points, sacrificing quality, i.e., working unmindful of all consequences.

II.

Analysing the reasons that brought Shanghai's industrial production to this serious state of affairs, we find the main points to be the following:

1. Insufficient distinction between the levels directed toward production. The purpose of industrial production is to satisfy consumption, either the consumption of individuals or of the general public or industrial consumption. Viewing the production process in its entirety, there are high-level industries, such as mining enterprises and basic raw and semifinished materials industries; there are medium-level industries, such as the engineering, electronics and meter and instrument-making industries; and there are lower-level industries, such as those producing all kinds of consumer goods for individuals or for the general public. The purpose of production of the lower-level industries must be to satisfy the needs of the markets providing for the consumption of individuals and of the general public. The purpose of production of the medium-level industries must be to satisfy the production needs of the lower-level industries. The purpose of the high-level industries must be to satisfy the production needs of the medium-level industries. Each industry and each enterprise must be aware of the level at which it stands within the entire process of social production and must therefore be clear about which target consumer group it has to serve and also clear about the purpose of its production. If the consumer demands changes, or if the lifetime of a product reaches its end, the leadership sector of the industry and the enterprise leadership should foresee a trend of this nature and should prepare technological reserves as early as possible, including new products, new techniques, new technologies, etc., and must then promptly form a policy decision and at the critical stage do everything in their power to gain the initiative in providing even better service for the particular target consumer group they are serving.

Serving the needs of consumption is the objective of industrial production. The various production norms must reflect the production objectives of the enterprise. Norms reflect objectives, but are not themselves objectives. At present, because of considerable shortcomings in our method of plan evaluation, the norms become increasingly divorced from objectives and have become a kind of coercive force, causing enterprises to divert in their production, in a lopsided pursuit of the norms, from the path of realizing their true objectives. If we firmly and clearly perceive the purpose of production, and not merely single-mindedly pursue norms, we will on our own initiative develop commodity assortments, raise quality and speedily do all necessary upgrading and replacing in order to satisfy the changing and developing needs of society.

The current norm evaluation system with its link-related evaluation method and annual increases pays attention only to the annual plan and disregards any long-term planning and any overall planning system that relates to the annual plans. It compels people to busy themselves with the annual norms and gives no consideration to the developmental strategy of an

industry or an enterprise. Besides, the leading economic organs and some of the leading cadres in the enterprises lack adequate vision for any operational and developmental strategy, lack sufficient determination to provide the sphere and the time to create a "change of atmosphere" in the development of Shanghai's industry and lack the lofty aspirations and great ideals to promote technological progress for the development of complete sets of products up to international standards. They will, moreover, allow Shanghai's industrial production to decline into a state of obsolescence in technology and equipment and into a spatial saturation of production, a predicament that makes it difficult to change commodity strategy and to raise production by large magnitudes.

2. Insufficient attention to the development of technologies. In the ideology that guided our efforts to develop production, major attention was given for a long time to building on the basis of old technologies and to filling gaps and exploiting potential. We were remiss in taking the employment of new technologies as our starting point in technological renovation and transformation, and in the limited production latitude available, we created for many years a state whereby we increased production merely by the repetition of old technologies or by minor changes or transformations in order to gain high profits, so that to this day the technology of many of our enterprises is backward, productivity rises slowly and production capacities are overcrowded. This kind of pernicious inflation has already harmed some enterprises to the point where they find it difficult to change their production to a marketable line of goods needed by consumers and difficult to undertake technological transformations.

3. Scientific research became detached from production. There is now a lack of organic and planned coordination and cooperation between the Economic Commission and the Scientific and Technological Commission of the municipality and between the production units and the scientific research units. It is not sufficiently clear what the basic tasks and the direction of technological developments are for the research organizations under the various industrial bureaus, corporations and factories. There is an extreme deficiency of intermediary experimental installations and shops, making it difficult for scientific research achievements to be finally transformed into productive forces. There are, furthermore, shortcomings in the purposeful areas of scientific and technological work, in its organizational methods and in the division of labor and coordination, which again makes it difficult to have a technological reserve that could respond to sudden changes in social needs. For instance, scientific research and technological development work lacks the firm ideology of aiming in its ultimate objective at putting worthwhile items into production and at providing for the markets, and also lacks an effective organization that works with systematic engineering methods. Among the "five route armies" there is no clear and definite understanding, nor any cooperation, as to a division of labor, coordination and cooperative relations throughout the entire processes of the research, development and transmission of items for production.

4. There is very insufficient coordination and liaison between the various departments. In quality and numbers, Shanghai's contingent of technical personnel has not kept pace with the needs of the developing economy. However, on the other hand, they have also not brought the great advantages into play that Shanghai has in its scientific and technological specializations, its complete scientific and technological organizations, the availability of all kinds of industries and the full complement of institutions of higher learning and of technical secondary schools. Shanghai has not instituted various forms of cooperation between specialized industries and contacts between them so that the existing potential of productive forces cannot be fully converted into active productive forces.

Shanghai has many factories of the same category using the same kind of basic manufacturing techniques (casting, electric welding, etc.) They could be organized for cooperative production among specialized industries. Shanghai has many factories, research institutes and institutions of higher learning whose work is concerned with a certain major commodity and whose units are scattered among various industrial bureaus or collectives. They could be brought together to form several joint entities of production and research and made to form a powerful production capacity. Shanghai has also many planning and designing units, scientific research units and construction units which could also be brought together to form a joint entity for planning, the manufacture of complete plants, complete supply services, constructions, installation of equipment and testing services, thus forming a powerful composite force that could contract for technological transformations and capital constructions. In sum, in many areas there is a need to organize horizontal coordination.

5. The problem of raising capital and using it in the right way. The fundamental problem is that capital is insufficient and that it must be used effectively whatever capital is available. Solutions for the problem of insufficient capital are, besides raising the economic results of production, the effective use of credits and the concentration of floating funds and the assurance that special efforts be made to raise the ratio of productive returns from invested funds, to reduce the cycle that constitutes the production capacity and to keep a firm control over the direction of investments. On the premise of not causing imbalance in the organizational system of industry, investments should as far as possible be used in industries with a high ratio of productive returns. Comparatively speaking, that means they should be used in industries that can achieve the highest economic results. A problem that presently requires a most urgent solution is, on the one hand, one in which few investments are made and, on the other hand, one in which the industrial enterprises of the whole municipality find on use for about 30 percent of the funds they are annually permitted to retain and deposit in banks. There is no way that the enterprises can transfer the funds among each other and use them as loans. It is therefore necessary to strengthen control over these funds and make every effort to have them play their full role in solving the contradiction of existing surpluses and shortages.

6. The lack of clear, definite and comprehensive city planning for the entire municipality. If this problem is not solved, a whole series of conflicts will arise between the industry and municipal development, environmental protection, traffic and transportation, and this will have the consequence of restricting industrial development from a variety of directions.

III.

We must now examine the question of whether it will be possible to quadruple the gross industrial output value of this city. Quadrupling is a quantitative concept, and only by studying the quantitative aspect of it can we clarify whether there is indeed the possibility and in what way it can be achieved.

First of all, we must clarify the guiding ideology of industrial development, including that of quadrupling. What we have here is: the increase in industrial production must have as its objective the satisfying of social needs. On the premise of satisfying a social need, we must bring Shanghai's superiorities into full play, develop as far as possible the traditionally superior industries and provide favorable conditions for the development of newly arising industries. We must at the same time give consideration to a coordinated composite development of our city's lower-level, medium-level and high-level industries and avoid any imbalances. Next, we must give earnest consideration to the restrictive conditions that constitute major restraints on Shanghai's industry, such as energy resources, raw and other materials, manpower, space for factory buildings, capital, etc. According to this train of thought, we believe it is necessary to explore the following three problems:

1. We can consider the following as guiding principles for Shanghai's industrial development:

1) Develop a big enough margin in our city's industry in order to supply consumer goods for individuals and for society at large, an industry in which our city has quite some superiority. Here we should advance in big strides to improve assortment, performance, models, quality and quantity, providing an abundance and great variety of modern consumer goods for the basic necessities of life, for communications, for cultural and educational purposes and for the areas of medicine and public health in order to improve the material livelihood of the people and satisfy as well as guide the daily increasing consumption needs of the people, while at the same time expanding our exports and breaking into international markets.

2) The equipment industry, guided by the principles of modernity, the supplying of complete sets of equipment, precision manufacture and the use of durable materials, should gradually achieve the ability to provide highly efficient, energy-saving, reliable and automated sets of equipment for the transformation of industries in our city that are backward in equipment. For this purpose we must exert great efforts to develop such

specialized machinery at modern standards as machinery for the electronics industry, machinery for light industry, textile printing and dyeing machinery, machinery for the construction industry, power-generating and transmission equipment, etc., and we must gradually provide complete sets of modern equipment for the transformation of the light, textile, handicraft, electronics and energy industries. At the same time we must exert great efforts to improve the modernity of designs in the basic components of the widely used machinery, electric apparatuses, measuring devices and instruments, improve the precision of their manufacture and also increase the assortments and serialize the products. We must also appropriately develop heavy machinery for metallurgy, the basic chemical industry, offshore oil exploration, mining, etc. In sum, the rate of developing the equipment industry, or we may also say the medium-level industry, must accord with the technological transformation of the lower-level industry and the scope of capital construction.

3) The raw and semifinished materials industry must in the first place satisfy the needs of consumer products production, at the same time also as the needs of the equipment industry. In assortments, specifications and quality and quantity of production, efforts must be made to satisfy the requirements of the lower- and medium-level industries, and any insufficiencies must be balanced by domestic supplies or foreign imports. The raw and semifinished materials industry is frequently consuming large quantities of energy, and, therefore, although deserving to be much developed from the viewpoint of needs, it must be strictly controlled in supplies of energy in its operations throughout our city. Therefore:

Regarding raw materials for the chemical industry. We must definitely first serve the lower-level industries, at the same time also serve the medium-level industries and make great efforts to supply them with new types of raw and other materials. Next, we must restrain the development of such large consumers of energy as the synthetic ammonia, carbide and electrolytic chlorine manufacturing industries and limit them to producing for our city's requirements, to be supplemented, if need be, by supplies from outside sources. Moreover, we must energetically promote technological transformations and economizing in energy consumption.

Regarding the metallurgical industry. During this century, we shall not increase our present steelmaking capacity of 5 million tons. We shall emphasize the development of steel products, alloy steel and high-quality steel. Assortments and specifications must basically satisfy the requirement of our city and we may also lend support to the outlying districts, while we must strive to import from other places certain large-size and special forms of steel products.

Regarding the construction industry. As to its requirements, even quadrupling production will not be sufficient. However, limited by available energy sources, our city can only develop construction materials and high polymer composite construction materials that require small amounts of energy but must induce the cement and glass construction materials industries, which consume much energy, to establish as many links as possible with other

areas that have resources of limestone and coal in order to reduce transportation loads and energy consumption in this city.

Regarding the secondary energy supply industry. There the power-generating capacity of the Huadong Power Administration must be developed more than before. The supplies of power by the Huadong power network to Shanghai industries must definitely be increased four times if not more, while consideration must also be given to expand power supplies for the needs of the population at large.

2. We must estimate the rate of development and analyse the contradictions in the various industrial bureaus of Shanghai in the light of the above-stated principles.

In efforts to quadruple the gross output value of Shanghai's industry, we must consider the following five restraining factors: the energy resources of the industry can only be doubled because of the daily growing shortages in raw and other materials. We must therefore make great efforts to economize particularly in steel products and in nonferrous metal materials. Industrial manpower must be attuned to the population policy and the structural changes in the industries that give employment as well as to some transfers from agricultural manpower. There must be additional land made available for the building of factories, but there are important restrictions in that respect. Capital funds must be assured, but these must be used economically and every effort must be made to raise the rate of productive returns from investments.

The questions now are: can we satisfy the various restrictive conditions, what contradictions exist and what countermeasures must be adopted?

Regarding industrial manpower. Analysing the forecasts for Shanghai's population, the trend in the structural changes of industries giving employment and the outlets for surplus agricultural manpower, we can see that for the time of the Seventh 5-year Plan and beyond, there will be not only no increase in the available work force for the Shanghai industries owned by the whole people, but there will even be increasing shortages. Apart from the fact that the factories in the neighboring counties and satellite towns may possibly obtain adequate manpower from surplus agricultural manpower, there will be a diminishing trend in manpower for the industries within city limits. To achieve the quadrupling of the gross industrial output value, it will therefore be necessary to increase the labor productivity of 1980 four times by the year 2000, and this is only possible at an average rate of increase of 7.2 percent. The development of the labor productivity of all personnel in industries owned by the whole people throughout Shanghai during the last 30 years has shown that under certain technological conditions, raising productivity is getting increasingly more difficult. In the future, it will therefore be necessary to make every effort to employ technologies and equipment having a high rate of efficiency and requiring little manpower and to raise greatly the extent of mechanization and automation.

Regarding land for factory buildings. Based on the efficiency of the present equipment and according to the trend during the last 30 years in the building area requirements of Shanghai factories following the changes in output values, the area required for industrial buildings throughout Shanghai in the 20 years between 1981 and the year 2000 will have to be increased at least by an area equal to that presently occupied by the city's industrial enterprises. At 350 yuan per square meter, at least some 20 billion yuan would have to be invested. It will therefore be necessary to employ highly efficient equipment to reduce the pressure for factory land and instead to use the investment mainly for advanced types of highly efficient equipment. Otherwise an average of at least some 3 million square meters of factory land would be needed every year for the next 17 years, and neither civil engineering capacity nor building supplies could keep pace with such requirements.

Regarding consumption of energy by the industry. To achieve the objective of "quadrupling output value and doubling energy resources," we must also achieve economies in the use of standard coal during the next 19 years through technological progress and other measures. Thus, the overall industrial energy consumption in the year 2000 will be 1.3 tons of standard coal per 10,000 yuan of output value, requiring an average annual reduction of 3.36 percent. Organizational changes in industry will have to account for 29 percent of this reduction, and 71 percent will have to depend on other factors. Looking at the condition in which Shanghai's energy consumption has progressed, the work of economizing on energy has mainly been in the direction of strengthening management and "sweeping up some flotsam." According to a preliminary analysis, the energy resources saved in the last few years can be attributed to 25 percent in reductions due to organizational changes in the industry, to 25 percent in reductions due to the adoption of major economy measures and to 50 percent in the overall strengthening of energy management and minor renovations and transformations. The future economizing in energy is bound gradually to shift mainly to technological transformations, and the difficulties of this work will steadily increase. At the present level of things, it will therefore require a rather high price to be paid in order to fulfill the above-stated demands for energy economizing.

3. We must estimate the amount of investments and amount of work:

Using the historical data since 1971 and the plan data reported to higher authority in 1983 by the various industrial corporations and industrial bureaus for the Seventh 5-year Plan, we obtain the following average ratios for investments to output value produced in the various bureaus: in the four bureaus for the light, textile, handicraft and instrument and meter industries it was 1:3; in the four bureaus for the medical and pharmaceutical, machine-building and electrical, metallurgical (not including the Baoshan Steelworks) and shipbuilding industries, it was 1:1.5; in the three bureaus for the chemical, petrochemical and high polymer chemical industries it was 1:1; and in the bureau for construction materials it

was 1:0.6. According to development plans, deducing again from the data in these 12 bureaus for the other industrial departments in Shanghai and adding investments of the city government for communications, scientific research, culture and education, public health, agriculture, finance and commerce and housing, the city needs an investment of a hundred million of yuan. This shows the huge magnitude of the amount of investments and the corresponding increase in the amount of work.

The amount of work can also be estimated from another angle. As a consequence of the gradually heightening demand for greater speed in the future development, the amount of work is bound to increase sharply. To achieve the objective of a quadrupling, the average annual rate of increase for the 20 years is to be 7.2 percent. If the rate is 4.6 percent for the Sixth 5-year Plan, 6 percent for the Seventh and 8 percent for the Eighth, we have to have at least 10.2 percent for the Ninth 5-year Plan.

The average actual annual production capacity materialized during each period (not including construction work for not yet materialized production capacity) must be almost double the capacity in the preceeding period. That is why we have to admit that it is an extremely arduous task to quadruple the gross industrial output value of this city. We must strive to accomplish this task by scientific organization and rational and smooth interrelations and must actively employ advanced or suitable technologies and also raise the necessary capital.

IV.

To accomplish the task of "quadrupling" requires studying the path of possible further developments. We could perhaps start out with the following few points:

1. We must be determined to effect changes in location together with technological transformations. We must on the one hand establish new industrial bases in a planned way and step by step and must on the other hand gradually transform the existing old enterprises in an endeavor to obtain sufficient room that will allow the technological transformation of the entire industry of Shanghai. For instance, we should decide on a new base to concentrate the electric circuits and computer industries, a new base for the textile printing and dyeing industry, a new base for steel rolling, a new base for the processing of high polymer composite materials, a new base for the chemical industry, new bases for the light and handicraft industries, etc., on the one hand removing to the new places and building there and on the other hand vacating the old factory buildings and transforming the old enterprises. We must break out from the confines of the present city limits and from present factory buildings and seek a stage for broader developments. Otherwise, it will not even be possible fully or in part to process and absorb in our city the products or our "two peaks," that is, the main plants of the Shanghai Petrochemical Corporation and of the Baoshan Steelworks. It would also

mean that not only would the factories within the city limits be unable to improve their own efficiency, but even the "two peaks" would not be able to play their full roles. After ample room has been obtained, we must firmly take the transformation of the present factories in hand, employing new techniques and highly efficient equipment, so that we may be able to increase quickly the production and quantity of articles that are easily marketable and suitable to satisfy customer needs, to manufacture new products of excellent quality and also to improve the environment, public security and labor productivity.

2. To raise economic results, strengthen our capacity for technological transformations and rapidly develop additional productive forces, we must organize various forms of cooperation and liaison among specialized industries. There are mainly three forms to do that: joint entities of cooperation by specialized industries that concentrate on developing basic techniques, for instance, specialized cooperation for the four large techniques of casting, forging, electroplating and heat treatment; joint entities that concentrate on developing the use, research and production of certain products, such as electric light sources, lamps and lanterns, the packaging of materials and machines, electronic computers, motor vehicles, motorcycles, refrigerators, washing machines, electrical household appliances, etc.; and joint engineering entities that design and equip complete plants and carry out installations and that concentrate on adapting and developing new technologies and undertake technological transformations or items of capital construction, such as petrochemical engineering, power station engineering, light industry machine building, engineering for the treatment of printed or dyed textiles, etc.

3. We must take in hand the replenishment and development of a construction work force and installation and erection work force. All construction, installation and erection work will continuously increase in the foreseeable future, and we must strengthen the work force for this work as early as possible.

4. The planning of economic development must take social development planning as its point of departure; our program of scientific research must serve economic and social developments. When we make plans for industrial development, we must do synchronous planning for energy resources, public utilities engineering, communications and transport, storage facilities and other such complements to production as well as for such support facilities as establishments for the livelihood of the staff and workers, communications and municipal government facilities, facilities for the movements of commerce and the service industries and facilities for spiritual civilization, e.g., cultural, educational and recreational activities.

5. We must do a solid job of developing products of an equipment nature, such as self-controlling instruments and meters for the engineering and electrical industries; this is a key link for the takeoff of Shanghai's industries. In order to have the industry that provides consumer goods

for the needs of individuals and society at large quickly catch up with the international level, it is now necessary to import single items, production lines and complete plants, but we must not continue forever to do so. We must develop on a large scale the lower-level industries (including the use of imported equipment and imported technologies) to promote the technological progress of the medium-level equipment industry and, through the technological progress of the medium-level equipment industry, stimulate the technological progress of the high-level metal and synthetic compounds industries as well as the industry of new types of inorganic materials. After that, we shall use the daily growing domestic equipment industry and the raw and semifinished materials industries to transform on a large scale our domestic lower-level consumer goods industry. In this way, there will be quick technological progress, investments will be saved and the ratio of production to investments will be high. We must take the development of the electronics industry energetically in hand. We must concentrate on developing electric circuits, electronic computers and other primary instruments and components to a high level of perfection and on a large scale. We must energetically organize the work of propagating the widest use of these items. Our work is actually still at its early stage. We must now do a solid job at this early stage of preparing on a large scale a concentration on electric circuitry and the development of our electronic industry; only then will be gradually but truly reach a high tide of great developments in the electronics industry and in the information industry. The equipment industry is therefore still the key to our present industrial development. If we now earnestly start to grasp this work firmly, we can possibly reach the high tide of our electronics industry by the middle of the 1990's. We must also pay attention to getting a firm grasp of newly arising industries and must do so by close coordination between the scientific research departments and the production departments in order to bring about the smooth development of our own production capabilities in these fields.

The development of our industry as a whole requires very carefully thought-out, solid strategic measures that are suited to the realities of our industrial level of development. The above are merely preliminary and exploratory ideas and opinions.

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FINANCE AND BANKING

EDITORIAL ADVOCATES BANKING SYSTEM REFORM

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 3, 4 Mar 84 pp 6-9

[Editorial: "Further Unify Thinking and Understanding, Resolutely Do a Good Job of Reforming the Financial System"]

[Text] Vice Premiers Yao Yilin [1202 0181 2651] and Dian Jiyun [3944 4764 7189] attended and spoke at the first council meeting convened by the People's Bank of China. The meeting specifically called for resolute measures to restructure the banking system so as to give greater scope to the People's Bank of China in order to function as a central bank.

A major step in reforming China's banking system is to enable the People's Bank of China to exercise the special functions of the central bank and to become a state organization under the State Council in overseeing the country's financial institutions, thus serving as the bank of banks and an issuing bank. Implementing this reform well will positively contribute to promoting the restructuring of the economic system and supporting the building of the four modernizations. However, since we are inexperienced in carrying out such reforms, we are bound to meet considerable resistance and difficulties. To eliminate these obstructions, we should first of all rely on unifying our thinking, raising our understanding and correcting our attitude. Above all, this is the key to the success or failure of our current banking system reform efforts. As long as all cadres are unified in their thinking, truly and consciously implement the State Council's decisions and confidently, ardently, wholeheartedly and boldly carry out experiments, they will certainly be able to achieve results and gain experience.

Reform Dictated by Objective Requirements

We should understand that this reform is in line with the objective requirements of the new period for reforming China's economic system and building socialist modernization. Why do we put it this way?

First, restructuring the economic system is aimed at separating politics from enterprises by using economic measures to manage the economy. In specifically exercising the functions of a central bank, the People's Bank of China as a component of the government represents the State Council in leading and overseeing the country's financial institutions.

It is an important experiment for banks of a specialized nature and other financial institutions which exercise their own functions as independent economic entities to see to it that politics is separated from enterprises and to manage finance and banking with economic means and according to law. This reform not only provides guidelines for restructuring the economic system itself but also offers experience to other economic sectors in the quest for reform measures. In implementing this particular reform, it will be necessary to change the practice of solely relying on administrative orders that has been formed for many years, such as the habitual practice prevailing in the past of imposing overall control in economic management embracing personnel, finance, property and commodities for supply and marketing, even extending such control over "party membership" as well as "official posts." The generally accepted view is that only by doing so can one do whatever one wishes. Attempts to change this practice are likely to meet resistance brought about by the force of habit, a major source of anxiety being the fear of losing control. Historical experience shows that although one can freely direct others by merely relying on administrative orders, bureaucratic practices that are at variance with economic laws will often appear to undermine the achievement of higher work efficiency and greater economic results. One of the salient features of promoting economic management by means of economic measures is the requirement of proceeding from actual conditions by following economic laws, stressing economic results and paying attention to economic advantages. Banking is a product of the commodity economy when it has reached a highly developed stage. The satisfactory management and operation of banks in particular depend on a knowledge of management by means of economic measures and according to the inherent requirements of the commodity economy. As a functional sector of the government, the central bank should of course adhere to established laws and decrees, policy guidelines and planned management. However, learning well how to apply economic measures is primary. Therefore, to give full play to the functions of banks in building the four modernizations, it will be necessary to restructure the banking system along this direction.

Second, in the course of carrying out the four modernizations program, insufficient funds have become a prominent problem. Apart from employing various workable means and tapping available channels, banks are required to collect more funds and to manage and use them really well. With progress achieved in the reform of the economic system over the past years and through the concentration and distribution of more funds by banks, financial institutions are playing a greater role in the national economy. How the bank funds are employed has a direct bearing on the national economy as a whole. The setting up of a number of banks with specialized functions in the course of the banking system reform in recent years has gone a long way toward supporting production development, expanding commodity circulation and enlivening of the economy. This should be fully affirmed. However, tendencies to decentralize fund management and utilization have also appeared. This will hardly contribute to concentrating funds on key projects and giving full play to the economic leverage of the banks. The

decision of the CPC Central Committee and State Council on the functions of the People's Bank of China as a central bank is aimed at strengthening the centralization and unification of banking work, making a success of the country's macroscopic financial plan and control as well as amassing funds and using them well in the service of the macroscopic economic plan.

Third, keeping the currency stable is an important condition for ensuring the steady development of the four modernizations program. Historical experience tells us that the greater the scope of economic construction, the more attention should be paid to stabilizing the currency because otherwise more haste leads to less speed. An underlying cause for issuing more notes in many ways is indicative of the many-sided problems in the national economy. However, viewed from the banking system itself and that of issuing notes, there are also problems requiring reform. The main thing is that by lumping note issues and credit loan controls together, there is at least a recourse to using credit loans when financial difficulties arise. Issuing notes is resorted to only when there is an unfavorable balance in credit loans. The central bank system, if established, has the advantages of keeping note issues under control, formulating correct currency policies, handling well the relationship between economic development and currency stability and regulating currency circulation in a planned way. In this practice hereafter, we should find ways to institute by stages the separate management of note issues and credit loans, with the People's Bank of China exercising effective control of note issues through the centralized handling of credit loan funds. If the former is specially assigned to exercise the functions of the central bank, it not only can be freed from attending to specific affairs but can also devote its efforts to a study of a macroscopic plan for the country's finances and the formulation of a correct monetary policy that contributes to currency stability.

For this reason, we should realize that instituting the central bank system is a reform that meets the requirements of objective economic development. It is an important policy decision of the CPC Central Committee and the State Council. Whether or not this decision is carried out well will significantly affect the development of the national economy. This also shows that banks are playing a greater role and the discharge of this heavy commitment makes banking all the more demanding. Despite the fact that we are inexperienced in carrying out this reform and in the face of considerable difficulties, we have to be firm and confident in energetically carrying out reform in accordance with the requirements of the CPC Central Committee and the State Council. In doing so, we will be able to establish and consolidate gradually a socialist banking system that conforms to China's conditions.

Guiding Concepts and Work Methods Call for a Change

Exercising the functions of the central bank has changed the nature and status of the People's Bank of China. This change in work methods has inevitably brought new problems to those comrades who have worked many

years in people's banks, requiring them to change their guiding concepts and work methods that conform to work requirements. At present, they have to pay particular attention to learning well how to handle correctly the relationships between the people's banks and specialized banks on the one hand and other financial institutions on the other.

In the context of the guiding concepts, we should clearly understand that the relationship between the people's bank and the central bank as well as the other financial institutions mentioned above is not one of subordination in the administrative sense. This means that the People's Bank of China is not supposed to treat specialized banks and other financial institutions as it does its subordinate units. The State Council has stipulated that the Industrial and Commercial Bank of China, the Agricultural Bank of China, the Bank of China, the People's Reconstruction Bank of China and the People's Insurance Corporation of China are economic entities directly under State Council bureaus. At such, they are independent in exercising their functions within state-prescribed limits and according to state laws, decrees, policies and plans. For this reason, the People's Bank of China, on the one hand, has to sustain and support the vertical leadership of various financial institutions, backing them so that they can more successfully expand their operations and give full play to their functions. If the People's Bank of China applies inflexible control over specialized banks and other financial institutions and thus weaken their functions, it is obvious that it has failed to play the specific role of the central bank. On the other hand, we should be clear that functionally the People's Bank of China is a sector of the State Council, implying that the bank as a state organization represents the latter in leading and supervising the country's financial enterprises. On the business level, the relationship between the People's Bank of China and the specialized banks and insurance companies is one between the leader and the led. That is to say, in conducting banking operations within state-prescribed limits such as those related to policy guidelines, decrees, financial plans, note issues, monetary and foreign currency controls and basic systems as well as in organizational structuring, retrenchment and mergers, the People's Bank of China represents the State Council in carrying out leadership and management functions. This does not mean that one is bigger or above the other organizationally but indicates that functionally it is determined by the organization's nature and tasks.

Apart from employing necessary administrative measures, it is quite natural for the People's Bank of China to apply primarily economic means in playing a leading role in business operations. The specific functions of the People's Bank of China, as stipulated in the State Council's decisions, also prescribe provisions along the principle of the centralized management of credit loan funds. Generally speaking, control is exercised mainly in these four aspects: one, in accordance with established policies and decrees; two, in planned management, which in a certain sense is similar to control according to law; three, on the management of funds. Since the People's Bank of China functions as the central bank, it is in fact a bank in control of banks. As such, it must have access to sufficient

funds it can regulate and use so it can control specialized banks and watch their moves. As to the availability of funds, specialized banks must rely on the People's Bank of China for support, and not the other way around. If the latter fails to grasp this point, the call to strengthen the centralized control of credit loan funds will just sound hollow. A fourth method of control is to set up a council for the People's Bank of China as a policy-making body for the purpose of examining and discussing major problems related to finance, such as the state credit loan plan for the current year, important issues concerning cash plans and foreign exchange revenue and expenditure schemes, important problems regarding financial policies and macroscopic financial policy decisions, the installation of financial organizations, the principle of retrenching and merging specialized banks and of the division of work among them and other relevant matters of major importance. Issues that cannot be settled at council meetings should be submitted to the State Council for examination. As the State Council's functional department, the People's Bank of China is authorized to exercise its functions independently. It is also responsible for handling the day-to-day work of the council, trying as far as possible to enable the council to discuss and resolve major problems so as to avoid getting bogged down in routine matters.

As the central bank, the People's Bank of China hereafter should primarily be engaged in studying and successfully drawing up a macroscopic policy decision on the country's finances, carrying out the centralized control of credit loan funds, stabilizing the currency and giving play to its economic leverage in the service of building the four modernizations. To accomplish this task, it must proceed from these two aspects: making a success of both the macroscopic policy decisions and credit loan fund controls. Some comrades believe that the People's Bank of China, as the central bank, should devote itself to drawing up a macroscopic policy decision by presenting a number of major guiding principles and leave aside matters like fund control. They even hold that any attempt at controlling funds may become trapped in "routinism." This is not an overall view. Any central bank in the world carries out the government's monetary policy by controlling and regulating credit loans. There is no bank which is only concerned with studies without giving a thought to credit loans. A central bank is altogether unnecessary if the study of policies and guidelines is all that matters. At the same time, it is noteworthy that the centralized control of credit loan funds in the final analysis is in the service of a macroscopic policy decision. For example, the present control of note issues is a policy decision of the CPC Central Committee and the State Council and is also a primary task of the central bank. Controlling credit loan funds on the basis of this policy decision is absolutely not getting bogged down in "routinism," let alone depicting it as not conforming to the requirements of the policy decision.

Some other comrades believe that if the People's Bank of China is a control body, it has to extend its control to staffs, assets and inventories; otherwise it is only one in name but not in fact. This will be so if the People's Bank just devotes itself to handling specific business

operations and supervising personnel, assets and inventories. But the State Council's decision on the People's Bank exercising the functions of the central bank is designed to free the former from specific business dealing with enterprises and individuals as well as a large amount of routine work so that it can devote all its efforts to the study and implementation of macroscopic financial policy decisions for the whole country. It is also aimed at strengthening credit loan controls and preserving monetary stability. A very important reason why the People's Bank of China failed in the past to exercise the functions of the central bank is its involuntary encumbrance with specific business, thus truly making it a financial institution offering full banking services. But in upgrading and adapting its functions to the higher level of achieving an adjustable balance between macroscopic policy decisions and other guidelines and policies on financial management, it has not lived up to the expectations of the party and the state. According to the State Council's decision, while the People's Bank of China hereafter may not be required to attend to specific business, its tasks have become much heavier than before. In the present circumstances, to make a success and achieve a balance in the centralized control of credit loan funds, to keep the note issues under control and to supervise the state's foreign currencies, gold and silver reserves, it will be necessary to conduct regularly ample investigations and research on economic developments, financial conditions and changing trends, not forgetting about putting ideas forward in a timely way and adopting appropriate policy measures. It will also be necessary to supervise and check various financial institutions about their progress in implementing plans and policies so that the guidance and coordination of financial activities can be provided. As the bank of banks, the People's Bank of China should also do a good job of managing the issuing depot, allocating treasury deposit funds and making business contacts with associated banks, etc. As far as the scope of operations is concerned, to make a success of a macroscopic policy decision embracing the formulation of financial guidelines and policies, it will be necessary to understand and study domestic and international financial conditions and economic developments. Since vigorous and meticulous efforts are required to do these jobs well, the People's Bank of China in this sense is not tackling a job that sounds "hollow."

Conduct Bold Experiments, Grope for Experience

It is a new thing and a new experience for China to set up a socialist financial system with the central bank as the core. We should avoid blindly copying practices in capitalist countries, which are only for our reference. It is therefore a truly complicated and strenuous task to restructure China's banking system successfully and set up a characteristically Chinese socialist banking system. It is understandable for some comrades to have certain worries about this. To make any reform, we are bound to encounter difficulties and contradictions. However, we should not waver in our determination to reform nor slacken in our pace in this regard. We must resolutely proceed along the path and direction indicated

by the CPC Central Committee and the State Council and strive to perfect this reform in practice. This is the common task placed before the People's Bank of China, specialized banks and other financial institutions.

A determined attitude should of course be accompanied by appropriate measures, such as being sober and serious in our approaches, constantly summing up experience and proceeding gingerly to avoid taking devious ways and suffering losses. Accurate perceptions should be followed by resolute and prompt actions. Misjudgment should be corrected by continued research or testing at selected points so that different conditions can be identified and assessed and problems solved at each stage and one at a time. While at present some specific problems require further study, we must be clear about the following in guiding principles and work methods: (1) The People's Bank should not only strengthen its macroscopic financial control but should also, under the principle of centralization and unity, give play to the functions of specialized banks by mobilizing the initiatives of both the People's Bank and specialized banks. The former should conduct more research on some economic measures and pay attention to major issues, allowing specialized banks to operate independently and give play to their respective strong points and initiatives. (2) The People's Bank of China should avoid exercising inflexible control over specialized banks. Rather, it should concentrate its efforts on upholding a macroscopic policy decision, a planned balance, policy measures, fund control and supervision and examination on the basis of making a success of investigation and study. In this way, we will have the advantage of doing well the work that is truly related to the central bank's characteristics. Only by taking all the factors into consideration and placing ourselves in a transcendent position can we upgrade our work level and handle well the relationships with various specialized banks.

We believe that as long as we truly recognize the importance of this reform, proceed from the requirements of the national economy as a whole and approach this reform earnestly, we have the conditions and confidence to draw up effective measures that suit our country's present conditions. We should note that the CPC Central Committee and the State Council attach considerable importance to this reform, even directing the head office of the People's Bank of China to set up a council as a policy-making body. Party and government leaders in the provinces, municipalities and autonomous regions have also supported this reform. They have urgently called for greater efforts to give play to the positive functions of various banks in order to change the present decentralized management and diversified use of funds. Specialized banks and other financial institutions should also earnestly implement the decision of the State Council and together they are certainly able to make a success of this reform.

12661

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CONSTRUCTION

NEW REFORMS IN BUILDING INDUSTRY DISCUSSED

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[Summary of a speech by Li Ximing [2621 6932 6900] at the 28 April 1984 National Conference of the Heads of Construction Bureaus: "Promote the Reform of the Construction Industry Toward a New Stage"]

[Text] This conference is being held at the same time as party consolidation. It is a conference for discussing great matters and for developing new situations and is also a conference for using the spirit of party consolidation to promote reform. At this conference, we have earnestly passed on and implemented the spirit of the two conferences of the financial and economic leadership subcommittees of the State Council and the CPC Central Committee concerning the reform of the building industry and we have studied and discussed the important speeches made by Premier Zhao Ziyang. We have also exchanged the experiences of Zhongqing, Shenyang, Changzhou, Siping and other areas and have together studied the construction and economic policies of cities and the problems of initiating a new situation in the countryside. In reflection, everyone feels that this conference is beneficial and timely and possesses great significance. Many comrades have spoken and hope that we have solved a few problems for many years to come. The State Council had the final say: There is hope and new vitality for the vigorous development of the building industry. The green light has been given for reform and the situation is very good. We definitely must bear this burden, overcome difficulties, advance bravely and initiate a new situation.

Below, based on the situations discussed at the conference, I will present a few suggestions for your reference.

I. Get a Clear Understanding of the Situation and More Deeply Understand the Goals of the CPC Central Committee and the State Council

The CPC Central Committee and the State Council set out from a macroscopic viewpoint and a strategic situation concerning the reform of the building industry. Comrade Zhao Ziyang pointed out very clearly that agricultural reform has already achieved success and the building industry must keep abreast. He pointed out that "the building industry must carry out a large reform from both within and outside of the industry, and it

must be a comprehensive reform." The CPC Central Committee and the State Council made an important policy decision and resolved a series of significant problems. The 27th Standing Committee of the State Council discussed and resolved five points: (1) Reform the distribution system of the building industry and do not allow mandatory bonuses (wages); (2) reform the building industry's system for using labor. The key reserve strengths of state-run construction enterprises can use a large number of laborers and rural construction brigades can enter the city and contract for tasks; (3) organize the construction of complete supply companies for rural housing and building materials, carry out market readjustment and support the construction of villages and towns; (4) gradually promote the subsidized sales of urban housing in which we must stipulate a certain rate of return on investment, regardless of whether the enterprise or the city is building the housing; and (5) transfer foreign exchange as funds for managing each enterprise that does foreign contracts. When making his speech, Premier Zhao Ziyang also stressed that we must take the road to comprehensive development. The CPC Central Committee's Financial and Economic Leadership Subcommittees also further determined that we must manage a comprehensive engineering company to control design, equipment and construction, that is like a snake's mouth and that we must develop a plot of land in a unified manner and turn it into a new industrial zone. These few determinations have solved the problem of a protractual break up of the productive forces in the building industry and have solved the problem of strengthening vitality under the circumstances in which construction enterprises have tiny profits. We must compel the building industry to become an important materials production department that is fully vital and that can earn a large amount of funds for the state.

II. Further Liberate Thinking and Make a Decision To Engage in Reform

The building industry was severely affected by "leftist" influences. Under the influence of "leftist" ideology, people do not admit that the building industry is an independent materials production department, do not admit that the products of the building industry are commodities and regard the building industry as a supplier of labor. If the building industry is not put in charge of money, materials or planned targets, it will become completely lifeless. Economic laws, the law of value and the socialist theory of distribution according to labor are denied within the industry. The methods of using egalitarianism and "all eating from a common pot" have tied the hands of enterprises and have suffocated the vitality of economic development. Due to "attacks" from within and outside and due to the building industry being harmed by "leftists," the building industry is in worse shape than other industry. If only we can eliminate the influence of leftist ideology, the productivity of the building industry can then be freed.

We should not fear difficulties and should be brave in bearing burdens and in engaging in reform. In carrying out a contract system of responsibility for management, we must put forth a greater effort than we have in "all eating from a common pot." In promoting competitive bidding, we

must proceed from overall benefits, set out to make advances in management and administration, create pressure from the outside and a driving force from within and so suit the new situation. The reform of the system of using labor is also like this. I can also understand why people fear that there will be resistance. Where will the future backbone of production come from, and will contract workers always be used? I understand that we both must continue to have a backbone and must have technical personnel and management personnel. It is fairly difficult to promote contracts for work and materials. Some comrades ask, why do we not arouse enthusiasm in both respects, and why must we arouse enthusiasm in one respect? Are we not saving ourselves from worry in merely getting materials ready? Many years of practice have proved that when contracting for labor and supplies, the building industry is merely a department that sells labor, and construction enterprises at the most are materials-processing units. They cannot be independently managed and cannot yield good economic results. The building industry cannot give rise to its prosperous and advanced side. People know that hundreds of companies get materials ready for thousands of users, people run about collecting materials and setting up materials warehouses everywhere, the merchandise arrives at its destination and sits, building units cannot readjust and this causes great waste as far as the country is concerned. Premier Zhao Ziyang says that we only need to make a decision and this reform will then work. The experiences of Shaanxi, Changzhou, Shanghai and other areas have made this point clear. Through many years of effort they have achieved great success with regard to contracting for work and materials. We must have the correct attitude in dealing with reform. We cannot carry out reform if we fear trouble and extra responsibilities.

In short, eliminating "leftist" influences is a problem facing us that must urgently be solved. If the ideological line is not correct, then we cannot take a step toward starting reform and cannot initiate a new situation. Some comrades say that in carrying out reform we should take a risk in advancing rather than in being safe and attempting and accomplishing nothing. The process of reform is really a process of eliminating "leftist" influences. With every step we take we will meet with resistance. We must engage in a struggle against traditional viewpoints and old conventions and formulas that fetter productive forces. If we lack innovative aspirations for initiating undertakings and if we lack a strong will for staunchly carrying out the line of the 3d Plenum of the 11th CPC Central Committee, if we are full of worries fear risks and fear trouble, then we will accomplish nothing.

III. We Must Yield Results from Reform

We must make clear that reform is a means and not an end. An important sign of whether or not a reform is carried out well is whether or not it is able to yield high results, high quality, high effectiveness and high prestige. Shenzhen's reform has yielded a high speed in the style of Shenzhen. The reform of the Handan No 2 Construction Company has yielded high efficiency in the style of the Handan No 2 Construction Company. In this large nationwide reform, we must change from making large improvements in economic results to making new contributions through realizing

the grand and strategic goals raised by the 12th Party Congress of the CPC. Shenzhen can build a large building in a few days, and in 3 or 4 years it can build a modern city. The Handan No Two Construction Company had a labor productivity that exceeded 10,000 yuan for 5 years in succession and from beginning to end has been in a leading position. There are also a few other cities and regions that have not done a bad job. Why? Fundamentally speaking, this is a large improvement brought about by a large reform. Currently, the CPC Central Committee and the State Council have given this condition to the entire industry; through reform we must truly exploit the great potential of enterprises, and we must reach a new level in reducing the period of construction, raising quality, creating profits and serving users.

We must recognize that in implementing the aforementioned important policy decisions of the CPC Central Committee and the State Council, we must compel the building industry to enter a new stage of development. This is just as everyone has said: currently the building industry is truly at a new starting point. It is developing from a small reform in the past to a large reform and from a reform of individual items to a comprehensive reform, and it has developed from a decentralized unit-by-unit reform to a reform covering large areas such as cities and regions. In a word, it is developing in a deeper and more fruitful direction. Faced with this situation, we must keep a clear head and both adopt a positive attitude and abide by science. We must use the spirit of party consolidation to do good work and guide this large reform to take the healthy road to development. Thus, we must pay attention to the following few points:

First, we must seek truth from facts, not engage in arbitrary uniformity, not write superficial articles and should not engage in formalism. We must first experiment and then promote.

Second, we must support the basic aim of serving each sector of the national economy and serving the broad masses of people in the city and the countryside. From start to finish we should place improved engineering quality and economic results in a position of prime importance. We must continue broadly and thoroughly to develop activities involving top-quality engineering, we should definitely not manufacture in a rough and slipshod way and we should not treat users recklessly. Unguaranteed bonuses should be established on the basis of more pay for more work and not on the basis of more pay for less work. In carrying out contracts for work and materials, we must ensure key construction, use careful calculation and strict budgeting and economize on materials, and we should absolutely not allow materials to be used privately and should not use public authority for personal gain. Violators should be dealt with strictly. We must study and carry on in the spirit of the Dongfeng Construction Company in assisting large companies, going from streets to ports and filling in gaps in society and serving users, and we must prevent and overcome the bureaucratic business work style.

Third, we must further strengthen ideological and political work and establish outstanding professional management styles. We must listen attentively to opinions from all sides, consciously seek gaps, correct unhealthy tendencies, improve work with initiative and strive to provide the best service.

Fourth, we must further strengthen our political function and competently engage in the management of industry. This is an important point. Whether it is competitive bidding, contracting for work and materials or reform of the system of using labor, in all cases government departments must determine the method to implement. Problems encountered in the process of implementation must also be coordinated and solved by government departments.

Fifth, we also must carry out corresponding reforms in scientific research, design, education and publishing, and we must unite these units. We must carry out the policies of intellectuals, give full play to the effect of intellectuals, cause science and knowledge to be turned into productive forces as quickly as possible and promote industry-wide technological advances. School educational and publishing units must also be enthusiastically reformed and should initiate their own new situations.

IV. On the Cadre Problem

In carrying out the four modernizations we must first have cadres who are young, revolutionary, knowledgeable and specialized. The relative quality of the contingent of cadres and workers is an important factor in determining the success or failure of our undertaking. We must quickly train a group of young and outstanding cadres that is truly modern and knowledgeable and that possesses an organizing capability, and we should allow these cadres to shoulder the burdens. By 1984, or by 1985 at the latest, the party and government should have reached a college-level education. At least two-thirds of other party and government deputies should completely attain a college-level education, and this certainly includes self-study. We should realize as quickly as possible a leading body with a high educational composition and so suit the needs of the four modernizations. We must pay attention to implementing the policies on intellectuals. We must dismiss and replace those few in the leading group who are ignorant or incompetent and look down on knowledge and who discriminate against the attack intellectual cadres. Cadre training is a strategic task. We have already formulated a 7-year plan within the departments. We hope that all units in urban and rural construction organization adopt effective measures and competently implement this task.

V. Strengthen the Leadership of Reform Work

Work in reform must break through current systems, regulations and policies. This involves all aspects and the situation is extremely complex. We must fully depend on the strong leadership of both party committees and the government at all levels as well as the energetic

support of relevant departments. We must closely combine from top to bottom and coordinate actions in all areas. Zhongqing introduced its experience in initiating reform. Everyone was enlightened. We must take our indomitable and innovative spirit, strive for the support of the leadership with enthusiasm and take the initiative in holding discussions with the relevant departments. We can then take a large step toward reform. Changzhou, Shenyang, Siping and other places that competently carried this out also did it this way. We must study the experiences of these places, and in opening up we should develop a situation for reform. It is wrong to sit back and wait, and whoever does this will be unable to enjoy the fruits of reform.

Comrades, after you return, you must quickly report the essence of this conference to the provincial and municipal party committees and governments. You must integrate the circumstances of your areas, draw up laws and measures for implementation and as quickly as possible develop the reform of the building industry, and you should not wait for the "red papers." Premier Zhao Ziyang said very clearly that the summary of this conference has already appeared and that the present problems are problems of implementation. We will further discuss and strive to come up with a unified solution for a few economic and political questions regarding collective construction enterprises. The leading comrades of the CPC Central Committee and the State Council have spoken many times concerning the problems of promoting a 100-yuan output wage content contract and of receiving costs, and each area must act accordingly. Each area must also abide by Premier Zhao Ziyang's resolutions which we "can now start to advance" and "can now start to implement." We must quickly go into action.

This year is the 35th anniversary of the founding of our country. We must inspire enthusiasm, exert efforts to advance and use the rich fruits and new successes of reform to present as a gift on this glorious anniversary.

12437

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FOREIGN TRADE AND INVESTMENT

INTERVIEW WITH EVERBRIGHT COMPANY CHAIRMAN

HK291523 Guangzhou YANGCHENG WANBAO in Chinese 24 Jun 84 p 1

[Article by Ou Qicheng [0575 0796 7488] and Guan Xiao [7070 4607]: "Anecdote About 'Whirlwind Wang'"]

[Text] On the morning of 10 June, we went to the 14th floor of China Hotel and visited Wang Guangying, chairman of the board of directors of the Everbright Industrial Company, who is well-known and has become a prominent object of the press. Beaming with smiles, he sat down and said interestingly: "Of all present here, only I do business." Oh, he is really an entrepreneur who "can hardly open his mouth without talking shop!"

Resigning Office To Go in for Trade

Before assuming the post of chairman of the Everbright Industrial Company, Wang Guangying and Hu Ziang, chairman of the All-China Federation of Industry and Commerce, visited Hong Kong and Macao. During their visit many friends in the industrial and commercial circles sincerely pointed out to them the problems of China's foreign trade system. This greatly inspired Wang Guangying. He felt that since the implementation of the open-door policy, more and more people wanted to do business with China and that it was necessary to open up a new channel to form an unofficial, comprehensive company. He came back to Beijing and reported what he has seen in Hong Kong to the central authorities. His ideas were supported by Premier Zhao Ziyang and various departments. After 2 months of preparations, the establishment of China's first unofficial commercial and trade organization, the Everbright Industrial Company, was announced in Beijing last April. Because the general company would be set up in Hong Kong, Wang Guangying resigned the post of vice mayor of Tianjin and assumed the post of chairman of the Everbright Industrial Company.

Drawing Up Great Plans

While briefing us on the plans of the company, Mr Wang described the company as a bridge for developing economic and technological cooperation with foreign countries. It can take up the job of importing advanced technology and equipment and of reforming old enterprises for the mainland. Last year, it concluded a transaction of \$48 million and established business ties with more than 1,000 companies in the world. Now the company has eight branch companies and one "grandson" company. The annual business volume of this "grandson" company

by the name of Jiabaili [0857 4102 0448] amounts to HK\$100 million. He has predicted that this year Everbright can conclude transactions of \$150 million (three times the amount of transactions concluded last year).

Making Prompt Decisions

In recent years, the real estate business in Hong Kong has been in a depression. But in mid-January this year, the Everbright Industrial Company, which had been established less than half a year at that time, spent HK\$1 billion on buying eight City Garden buildings in North Point (with a total area of over 1.2 million square feet and consisting of 1,200 units). In February, the company pooled capital with other groups in buying Admiralty Ii Site at the price of HK\$280 million. At this site a grand-scale China hotel and a commercial building will be constructed. People said that he was good at buying "cheap goods." He predicted that the situation in real estate would turn for the better, and therefore he boldly concluded the two transactions. Hearing that a bankrupt textile mill in Singapore was going to auction off its Swiss-made 131 wide looms of the 1980's level with a 60-percent discount, he made a quick decision and bought them. Foreign businessmen who learned the news later than Wang Guangying could do nothing but sigh beside the "looms." In early April, while the stock prices were falling, he had no hesitation in buying an industrial company's stock. At that time someone reminded him: "The prices of stocks are falling again today!" He replied unhesitatingly: "That is why I have bought!" No wonder people said that he has courage and insight.

Airing Views Only When He Has Done Something

Wang Guangying is a man who "will not air his views until something has been done. In the interview he briefed us on what the Everbright Industrial Company is doing for Guangdong.

--The company is taking part in the construction of the industrial zone of the Zhuhai Special Economic Zone, where foundation projects have already started. Technology-intensive and knowledge-intensive work will be required in this zone.

--The company and the agricultural development company of the Zhuhai Special Economic Zone have jointly established the Modaomen exploitation company, which will reclaim land from the sea surrounding Modaomen, one of the eight estuaries of the Zhu Jiang. The area of land which will be reclaimed is 200,000 mu, three and one-half times as large as the area of Macao. This is the largest land reclamation project in Asia as well as in the world.

--In cooperation with Dongfang Hotel, the company is building an amusement park--Dongfang amusement center--near Dajinzhong reservoir at the foot of Baiyunshan. This amusement park will be the largest and most modernized park in China.

Wang Guangying told us that while he was in Guangzhou, he held discussions with Xu Shijie and other leaders of the city on carrying out new cooperative projects, such as reclaiming land with an area of 100,000 mu in Panyu County, building a 300,000-kilowatt power plant and an underground railway in Guangzhou, and reforming Guangzhou's light industrial equipment.

Wang Guangying refused to talk about what he had not done. We hope that he will achieve successes in what is being carried out.

FOREIGN TRADE AND INVESTMENT

GUANGDONG'S DONGGUAN COUNTY IMPLEMENTS OPEN-DOOR POLICY

HK030841 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 2 Jul 84

[Excerpts] Yesterday afternoon the Dongguan County People's Government held a press reception, in which County Magistrate (Zheng Jingtao) announced 10 points of preferential treatment for overseas businessmen who invest in Dongguan. The gist of these 10 stipulations regarding preferential treatment is:

All overseas businessmen investing in Dongguan to run factories can enjoy preferential land prices applicable to the local special economic zone. As for joint ventures approved before this announcement, if they still have not been operating at a profit, they may be exempted from income tax for the first 2 years from the year they began to make a profit, and they will be taxed at a 50-percent income tax rate in the latter 3 years. At the end of 5 years, those with difficulties can be given appropriate preferential treatment after approval. Profits legally gained by overseas businessmen through the operation of joint ventures may be remitted abroad. Businessmen having shares in joint ventures may directly take part in the operation and management of enterprises, and they have the power to take part in deciding the appointment of factory directors and managers, the wages system, rules governing awards and punishment, and the recruitment and dismissal of workers. For small joint venture enterprises, overseas businessmen and their relatives are allowed to operate enterprises on contract basis.

At the same time, households are permitted to undertake work on a contract basis regarding processing work with materials supplied by overseas businessmen. When Overseas Chinese, Hong Kong and Macao compatriots, Taiwan compatriots, and foreign businessmen invest in running factories, preference can be given to their relatives for employment in these factories. Regarding those persons who successfully introduce overseas businessmen to import capital and technology and invest in running factories, whether they are citizens of our country or Overseas Chinese, Hong Kong and Macao compatriots, Taiwan compatriots, or foreign businessmen, once the importation is successful and production is underway, a certain amount of money may be derived from the profits earned by the enterprises concerned for rewards to these persons.

CSO: 4006/690

FOREIGN TRADE AND INVESTMENT

FUZHOU CUSTOMS OFFICE LEARNS FROM GUANGDONG

Fuzhou FUJIAN RIBAO in Chinese 21 May 84 p 1

[Article: "Fuzhou Customs Learned From the Experiences of Guangdong and Improved Work, Thereby Further Opening up to the Outside World"]

[Text] Editor's Note: Learning from others' strong points to offset one's weaknesses is an effective method in promoting work. Comparing its experiences to that of Guangdong's, the Fuzhou Customs Office boldly and practically analyzed its own work, discovered its shortcomings one by one and formulated measures for improvement, thereby rendering better service in opening up to the outside world. This act of modestly learning from advanced experiences in other places deserves to be advocated.

While implementing the principle of "opening up, vitalizing, making exceptions and being flexible" put forth by the provincial party committee, we must of course fully estimate and bring into play our own superiority. But we must also conscientiously examine the differences between ourselves and the advanced regions and display true modesty in doing so. In this way, learning from the advanced will not be a mere slogan but will promote our work effectively.

"In customs work, while presevering in the necessary system of supervision, we should give more consideration to making things favorable to the implementation of the principle of opening up to the outside world so as to promote the development of local economic construction." This is the realization of Chang Dehou [1603 1795 0624], director of the Fuzhou Customs Office, and two other personnel after their study in Guangdong.

Proceeding primarily from the angle of customs control, Chang Dehou and his group visited the Guangdong Provincial Customs Office and the three customs offices of Guangzhou, Gongbei and Jiulong. Through comparison, they discovered the following differences between themselves and Guangdong:

- 1) Their thinking was not as emancipated as Guangdong's.
- 2) They were

not as flexible as Guangdong in the implementation of policies. 3) Their work was not as meticulously and properly handled as Guangdong's. 4) Whenever they encountered problems, they would resort to "rules" and do very little work in propaganda and explanation. Their work of taking the initiative to report customs work to the province and of acting as good counselors to local economic construction was not as good as Guangdong's. 5) They did not emphasize as properly as Guangdong did the work of summing up experiences and making improvements.

Through visits and interviews, they understood from the standpoint of guidance that customs work should render service to opening up to the outside world. The necessary supervision and management were for the purpose of promoting and making things convenient for normal external exchange and of developing socialist economic construction. The customs office is a local administrative organ representing the state. However, administration is not simply "restriction." Rather, it should guide the local imported and exported materials to go through normal customs by legal means. Thus, under the prerequisite of implementing the concerned policies and regulations of the central authorities, the customs office should pay more attention to "leniency," "simplification," "convenience" and "promotion"; further serve to utilize foreign capital and import equipment and technology; and promote local economic construction. Toward smuggling and other activities violating the law, we must persevere in being strict and strengthen management in order to safeguard the economic interests of the state.

Presently, in integrating with the decision of the central authorities on further opening up some coastal cities, the Fuzhou Customs Office has organized cadres and comrades in charge of departments at and above office levels to study further and discuss the concerned experiences of the Guangdong Customs Office and specifically implement them in action. In implementing supervision over cargo transportation, they have adopted many convenient measures regarding legal imports and exports and have also improved their method of work, style of work and attitude, thereby making things convenient for normal exchange.

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CSO: 4006/598

FOREIGN TRADE AND INVESTMENT

SHANGHAI'S LEGAL OFFICE OPENS

Shanghai JIEFANG RIBAO in Chinese 20 Mar 84 p 1

[Article: "Shanghai's Third Legal Advisory Office Opens"]

[Text] The Shanghai Third Legal Advisory Office, which specializes in handling legal cases involving foreign affairs or nationals, has recently been established and is now open.

The primary service of this legal advisory office is to act in a legal advisory capacity upon the invitation of foreign businessmen and China-foreign joint ventures and cooperative enterprises in this municipality as well as of the foreign economic units of this municipality. It accepts invitations to take part in negotiations involving foreign economic and trade projects. At the same time, it also handles civil and criminal cases involving foreign nationals or civil matters not involving litigation.

In the process of setting up this legal advisory office, the lawyers have already acted as legal advisors to such foreign economic units as the Bank of China, the Minxing District Development Company and the Shanghai Branch of the China National Machinery Import and Export Corporation and have accordingly participated in some joint ventures. In addition, they have drafted or examined contracts involving such projects as joint ventures, cooperation and technological imports. On the basis of attaining preliminary experiences, currently they have expanded their realm of service. They are providing legal services at the Jinjiang Foreign Businessmen Service Center, where they specially handle consultations with enterprises and individuals from foreign countries, Hong Kong and Macao. At the same time, they have established professional relationships with lawyers in Hong Kong and have begun to take economic and civil legal cases involving this municipality and the enterprises and individuals in Hong Kong.

In handling the legal cases of the enterprises or residents of this municipality involving foreign nationals, a temporary reception office has been set up at No 33 Yongjia Road. Office hours are Monday, Wednesday and Friday afternoons.

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CSO: 4006/598

FOREIGN TRADE AND INVESTMENT

DIRECT DEALINGS IN FOREIGN TRADE DISCUSSED

Guangzhou GUANGZHOU RIBAO in Chinese 5 Jun 84 p 1

[Article by reporters Du Ling [2629 0407] and Chen Weiguo [7115 4850 0948]:
"Direct Dealings in Foreign Trade Have Brought About Superior Results"]

[Text] The Guangzhou Silk and Linen Textile Mill implemented on a trial basis direct dealings in foreign trade. Last year, its profits increased by 27 percent over the preceding year. The amount of foreign exchange created by exported products totaled U.S.\$16.68 million, more than 5 times that of 1981. This year, the profits from January to April increased by 1.2 times over the corresponding period last year, while the foreign exchange created through exports increased by 2.2 times. All this showed the superior results of direct dealings in foreign trade.

By the end of 1981, the provincial people's government approved the trial-implementation of direct dealings in foreign trade by this factory. Its specific contents were as follows: 1) The enterprise had the power to export directly the silk and linen fabrics produced by the factory. It could directly carry out talks and sign contracts with foreign businessmen, make declarations at customs, consign goods for shipment and settle foreign exchange accounts. 2) It implemented the system of responsibility for its own profits and losses, checked and ratified the cost for foreign exchange, implemented contracting for assigned quotas and assumed total responsibility for its own profits and losses. 3) It accepted the business guidance of the foreign trade company and implemented unity in opening to the outside world. After more than 2 years of trial implementation, it manifested the following superior results:

The implementation of direct dealings in foreign trade by the factory has enabled the industry and trade to become one, thereby increasingly vitalizing production and business. Before the silk and linen textile mill implemented the method of direct dealings in foreign trade, the export of its major raw materials and products was completely undertaken by the foreign trade department and was of no concern to the factory. Due to the separation of industry and trade, production was divorced from sales. While the factory failed to understand the changes in the international market, the foreign trade department also failed to regulate production flexibly by the factory. Sales could only be determined by

production. The result was often this: What foreign customers wanted, the factory did not have; and what the factory had, foreign customers did not need. After carrying out direct dealings in foreign trade, the factory established direct contract with foreign businessmen and was even able to carry out investigations and studies in Hong Kong and abroad. It directly kept abreast of market news and took the initiative in competition. This spring, the factory discovered that the sales of spun silk in foreign markets were relatively slow. It immediately switched to exporting silk, thus raising the profits from the sale price by 31 percent. More than 2 years after carrying out direct dealings in foreign trade, this factory has organized exports for 43 varieties under 12 large categories of products, with the amount of exports constituting 55 percent of the gross amount of sales of the entire factory.

In carrying out direct dealings in foreign trade, the factory implemented the system of responsibility for its own profits and losses in exports; realized the combination of responsibility, power and interests; overcame the bad practice of eating out of the "same big pot" in foreign trade; and brought vitality to foreign trade work. The foreign trade business system formerly manifested the following: First, an overcentralization of power, and, second, the bad practice of eating out of the "same big pot." Such a system restricted the development of foreign trade. After obtaining the power to carry out direct dealings in foreign trade, the factory was able to link closely its business -- good or bad -- with the prosperity or decline of the enterprise. Hence, the factory tried by every means to push its way into the international market. It used the leftover bits and pieces of flax to make mixed cotton and flax yarn that is cool and not stuffy and that is very popular on the international market. It also organized the production and export of some high-grade flax yarn and turned the flax products, which for a long time were primarily sold at home, into hot items among the textile products for export. Its amount of export constituted over 60 percent of the total amount of export by the factory.

In carrying out direct dealings in foreign trade, the factory reduced the links in foreign trade, simplified procedures, delivered goods on time and won the acclaim of traveling businessmen. Before the factory implemented direct dealings in foreign trade, the foreign trade system had too many links and overelaborate procedures and often let slip golden opportunities. Now, the factory has the power to carry out talks directly with traveling businessmen and gives consideration to "swiftness" in production, sales, delivery of goods, transportation and the settling of accounts. Some products are produced and sold in the same month, with accounts also settled in the same month. Thus, the traveling businessmen were happy to conclude transactions at prices that are slightly higher than those stipulated by the state.

In carrying out direct dealings in foreign trade, the factory promoted the technological transformation of the enterprises and created the conditions for improving the enterprise's ability to meet emergencies. Direct dealings in foreign trade have brought about a sense of urgency for the

enterprise in accelerating its technological transformation. In the last 2 years, the factory has made a total investment of 9.33 million yuan in updating facilities and renovating factory buildings, thereby effectively raising product quality, increasing designs, colors and varieties, lowering production costs and raising the enterprise's ability in meeting emergencies.

While being interviewed by the reporters, the responsible persons of the factory said that although the method of direct dealings in foreign trade by the factory has fully displayed superior results, yet there are still all kinds of resistance coming from concerned departments, posing obstacle after obstacle for the factory. It hopes that in the present upsurge of reform, the concerned departments can truly use the standards of reform to regard this new development of direct dealings in foreign trade by factories and support this reform.

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CS0: 4006/598

FOREIGN TRADE AND INVESTMENT

GU MU SPEECH AT 14 COASTAL CITIES FORUM

Guangzhou GUANGZHOU RIBAO in Chinese 5 Jun 84 p 1

[XINHUA NEWS AGENCY report: "Forum Held in Shenzhen on the Economic Development of Coastal Cities"]

[Text] Gu Mu, secretary of the Secretariat of the CPC Central Committee and member of the State Council, delivered an opening speech today at the forum on the economic development of coastal cities. He said that the decision of the central authorities on further opening up coastal cities has evoked strong repercussions at home and abroad and has won the warm support of the whole party and the people throughout the country. It is entirely in accord with the needs of the development of our country's socialist construction to utilize foreign capital further and import advanced technology from abroad. History will prove that this important policy decision of the central authorities is of extremely profound significance to accelerating our country's economic development.

Gu Mu said: We have much work to do in further opening up coastal cities, and we will encounter all kinds of difficulties in our advance. The most difficult problem is our lack of experience and lack of skilled personnel. Thus, a very urgent task at present is to train skilled personnel and cadres. Just as comrade Mao Zedong once said, we must learn how to swim by swimming, and must let cadres temper themselves in practice. At the same time, we must go to those localities which have already had some experiences and study there. Thus, the State Council has decided that holding this forum is extremely necessary. We hope that all of us, together with the comrades of Shenzhen, will study, explore and sum up our experiences and improve our working ability accordingly.

Gu Mu said: To hold the forum in Shenzhen is mainly to learn from the experiences of Shenzhen. Shenzhen has had some successful experiences and has learned some lessons also. Although it has not succeeded in some matters, it is presently studying methods of resolution. The practice of Shenzhen is of important reference value to us. He said: First, we must learn from the vigor of the cadres in Shenzhen and learn from their spirit of being resolved to carry out reform, fearing no hardship, daring to make new breakthroughs and daring to carry out

reform. Second, Shenzhen is determined to create an environment for investment and is doing a good job of building the infrastructure in a planned manner by stages and in groups, developing one portion, building another portion and bringing about the results of still another portion. This approach is correct and deserves to be learned by all of us. Third, Shenzhen has made definite progress in the reform of enterprise management, personnel system and labor and wages. Fourth, right from the beginning, Shenzhen has already attached great importance to strengthening the ideological and political work of cadres. In accordance with the ideas of Premier Zhao Ziyang, the cadres of the special zone are asked to have an especially high sense of awareness, an especially good style, especially strict discipline and especially high efficiency. We should learn from all these.

Gu Mu emphasized: In further opening up the 14 coastal cities, presently we must emphasize the technological transformation of old factories, actively utilize foreign capital and import advanced technology, carry out the proper transformation of the enterprises by stages and in groups and prepare the conditions for accelerating the development of these cities. With approval by the state, those localities that have the factors to do so can also plan to build economic and technological development zones at the same time.

Liang Xiang [2733 3276], secretary of the CPC Shenzhen Municipal Committee and mayor of Shenzhen, spoke at the opening ceremony. We Qingtong, deputy secretary general of the State Council, and Wu Nansheng [0702 0589 3932], secretary of the CPC Guangdong Provincial Committee, attended the opening ceremony. Over 100 delegates from the 14 coastal cities to be opened up to the outside world, from Hainan Island and from some departments of the central authorities attended this forum.

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CSO: 4006/598

FOREIGN TRADE AND INVESTMENT

TECHNOLOGICAL TRANSFORMATION CONFERENCE URGES OPEN-DOOR POLICY

Guangzhou GUANGZHOU RIBAO in Chinese 6 Jun 84 p 1

[Article by He Qichao [0149 0366 6389]: "Make Use of the Factor of Opening to the Outside World To Accelerate the Pace of Technological Transformation"]

[Text] At the municipal work conference on technological transformation, which concluded the day before yesterday, it was proposed that we should utilize the favorable factor of further opening Guangzhou to the outside world to accelerate the pace of technological transformation in our city.

Last year, our city fulfilled an investment of 120 million yuan on technological transformation and completed 35 projects of technological transformation. After they enter production, these projects will bring about an increase of 110 million yuan in output value and 32 million yuan in taxes and profits for the country every year. Last year, imports of facilities and technology using foreign capital constituted 39 percent of the work of the projects of technological transformation in our city. For instance, the importation of such facilities as the beverage production line, the light bulb blower, the cold-press molder and cold storage has changed the technological facilities of the enterprises in our city.

The conference pointed out that the central authorities had further decided to open up 14 coastal cities to the outside world. This policy decision is extremely favorable to the launching of technological transformation in Guangzhou. We must fully utilize this favorable factor, combine the utilization of foreign capital and importation of technology with the transformation of old enterprises, further accelerate the pace of importing advanced technology and facilities and promote the technological transformation of the old enterprises.

The conference put forth the tasks and demands of technological transformation this year, which are primarily the following: To import advanced technology and facilities vigorously, develop new products, adopt new technologies, new techniques and new facilities and raise economic results.

The financial, taxation and banking delegates attending the conference expressed the determination to reform further the concerned financial, taxation and banking systems in order to benefit the technological transformation of the enterprises. At the conference, the Guangzhou Branch of the People's Bank of China indicated that this year it would put out an additional 100 million yuan to support the technological transformation of enterprises and would implement the policy of supporting outstanding projects and offering favorable terms of loans in granting loans to enterprises in developing name-brand and fine-quality products, in developing commodities in short supply, in developing scientific research results and in developing products for export.

The conference was held in Guangzhou from 2 to 4 June. Some factories told of their experiences in technological transformation.

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CSO: 4006/598

FOREIGN TRADE AND INVESTMENT

ESTABLISHMENT OF EXPORT PRODUCTION BASES ADVOCATED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, Mar 84 pp 11-12

[Article by Tan Qingfeng [6223 1987 2365] director of the Production Base Bureau, Foreign Economic and Trade Relations Department: "Manage Export Bases Well, Improve the Quality of Commodities, Stabilize the Supply of Exports"]

[Text] At present, protectionism in international trade is rampant and market competition is severe. Among competitive products, the standard commodity quality is good and the prices are low. These commodities have normally been welcomed by consumers, and they have proved quite marketable. China's establishment of production bases and special factories for the production of export commodities has been undertaken in accordance with a series of effective measures to organize production in line with the needs of the international market. Currently, the volume of China's export trade is very small; many export commodities are unable to satisfy export demand with respect to either quality or volume. Under these conditions, establishing commodity production bases and special factories, bringing into full play the individual superiorities of each area by suiting measures to local conditions and producing more and more marketable export commodities are now especially urgent tasks for our country in its development of foreign trade.

To date, China has 27 comprehensive export commodity production bases, individual commodity production bases for 98 varieties of agricultural sideline export products, 94 special factories for industrial export products (special mines and workshops), 821 foreign trade enterprises engaged specifically in production and processing, 130 joint enterprises for individual industrial and agricultural trade and a smaller number of Sino-foreign joint-venture enterprises. Generally speaking, the products of these production bases and special factories are not only numerous, of good quality, low cost and stable supply and marketable, but also of a new and advanced technology. They have received a favorable reception in the international market, and they have been very flexible. The supply of export commodities provided by these bases and special factories amounts to 30 percent of China's total supply of exports. These bases and special factories are already gradually becoming an important pillar of China's export trade.

How can we do a good job in constructing export bases and special factories that will be adaptable to international market demand?

First, strengthen market forecasting. In accordance with export demand, combine national strength, select accordingly key export commodities and formulate measures for the construction of export bases and special factories. Suit measures to local conditions, suit commodities to local conditions, give full play to individual superiorities, do a good job in distributing production and pay attention to economic results. The coastal cities are the more advanced areas of our country's economy. Transportation is convenient, the industrial and agricultural foundation is good, technological strength is abundant and management skills are relatively high. They are currently China's most important base for developing export commodity production. We should set up a few more export commodity production bases and special factories in the coastal areas, link together domestic production and the international market, reduce the differential between domestic and foreign products and enthusiastically enter international competition. By operating in this manner not only will we be able to expand our exports, but we will also be able to produce the abundance of goods for the domestic market. For example, the majority of our production bases currently supplying live pigs to Hong Kong and Macao have been established in Henan, Hubei, Hunan, Guangxi, Jiangxi, Zhejiang and other provinces and autonomous regions that neighbor Hong Kong and Macao or can provide convenient transportation. Since these bases were established, a development plan has been formulated, demanding that at the same time that the needs of the Hong Kong and Macao markets are satisfied, there should be a planned increase in the proportion of pigs providing lean meat. At present, the number of quality pigs amounts to about 18 percent of the pigs being exported to Hong Kong and Macao. It has been mandated that by 1985 that number should reach 30 or 40 percent and that we should strive to reach 70 or 80 percent by 1990. In order to reach this target, the bases must bring in more and better-quality pigs, establish entities for breeding pigs and mixed-feed plants, implement scientific methods of raising pigs, acquire epidemic-prevention medical equipment, provide essential transfer stations and transport tools and so on. At the same time, we must make a great effort domestically to encourage and expand the raising of lean-meat pigs in order to satisfy the enormous demands of the Hong Kong and Macao markets and China's own domestic market.

Second, the production bases and the special factories should implement the principles of increasing market competitiveness through raising quality, earning the trust of the consumer and seeking development through the use of new technologies. The needs of the international market are quickly and constantly changing. In order to adapt to these special characteristics, we must witness breakthroughs in product quality, make more trustworthy products and create new brands. We must organize production and testing in accordance with international standards and consumer demand. To do a good job in service work after sales, we must do everything possible to catch up to the speed with which commodities are being upgraded in the

international market. For example, the Changzhou Corduroy Printing and Dyeing Mill is a special factory. Because this factory has paid thorough attention to quality and has continuously created new products, the volume of its corduroy exports has risen from about 10 million meters to about 60 million meters in the past 10 years. It has increased its product varieties from a few dozen to over 200 specifications of 8 major varieties and more than 2,000 designs and colors. It has created product series with more varieties. The Lotus Dance brand has enjoyed a favorable reception in the international market, with its selling price becoming higher than other brands of the same product. Shanghai-produced super-washable wool sweaters have already reached the shrink-resistant standards set by the International Wool Society (IWS), and factories have been permitted to apply the "superwashable wool" label issued by the IWS. All-wool gabardine, gabardine and other products produced by the Wuchang New Wool and Textiles Mill in Jiangsu Province have already become recognized as international brand products by the International Wool Society and are now being sold on the international market. However, we still have a few products that have not caught up to the changes in the international market. They have been producing exactly the same goods for many years and have made no changes for a long time. If we go on like this we will not only be withdrawing from the international market but will not be able to market these products domestically either. In opening up new markets and maintaining existing markets for our products, special factories and production bases must work toward "achieving success with quality" and "attracting consumers with new products", and diligently organize more varied export production. While we are producing the first generation of products, we should simultaneously be trial-producing the second generation of products, researching the third generation and conceptualizing the fourth generation. Only in this manner will we be able to keep pace with the changes of the times and with the changes in the international market. And only in this manner will we be able to produce key export commodities possessing distinctly Chinese characteristics and to continue to develop new commodities. For example, we have operated in this manner with respect to clothing exports. The developing trend in world clothing is toward the direction of light, comfortable and colorful clothing of simple design. To do a good job in exporting clothing, we must follow the developments and changes in styles and in world trends.

Third, rely upon technical upgrading and technological advances and manage the export bases and special factories well. Our commodity economy is not yet sufficiently developed. Commodity quality is still relatively poor, and production technology level is low. In order to allow our export products to be sufficiently competitive in the international market, we must adopt excellent varieties, new technologies, new equipment, new techniques, new materials, new designs and new styles, and we must facilitate the upgrading of products. We must use advanced technologies to produce high-quality products in order to guarantee our export requirements. For example, in the past Shandong's tobacco was of poor quality and sold at low export prices. Shandong could only make cigarette-filling tobacco. However, over the past 2 years we have set up tobacco export bases in Shandong's two provinces of Zhucheng and Anbing.

We have brought in high-quality seeds from overseas; adopted scientific methods of planting, fertilizing, management and tobacco leaf separation; and improved our roasting and other equipment. We have consequently improved the quality of our flue-cured tobacco so that it has reached international standards for prime tobacco, and its sale price has risen 57 percent. The Changchun Optic Cell Plant is also a special factory. There they brought in equipment from overseas and produced glass lenses for export, thereby filling this product void in our country's exports.

In order to speed up the technological transformation of our export products, the production bases and special factories must enthusiastically make use of foreign funds and bring in advanced technology and equipment. There must be enterprises that upgrade a selective group of export commodities. There must be new enterprises and new production bases that can carry out the planned establishment of a group of products that can meet the international export market standards of the 1980's.

Export production base and special-factory production should be integrated with scientific research. The production bases should strive to raise high-quality strains of livestock, poultry, seeds and seedlings. They should enthusiastically expand the use of advanced science and technology and mobilize domestic agricultural sideline production. The advanced technology and equipment of the special factories should continually be passed on to the non-specialized factories for their use as well, in order to advance the development and improvement of our domestic industry.

Fourth, in managing the production bases and special factories we should stress economic results. Striving to expand export trade is the starting point for supporting export commodity production and mobilizing the construction of export bases and special factories. The economic results of the export bases and special factories should serve as a model for other factories in the same industries. The Hongjiang Porcelain Factory is an export plant. This plant's equipment is new, and its technological strength is relatively powerful. Moreover, there is excellent high-mountain procelain clay in the area, and the plant enjoys exceptional advantages. The plant has fully exploited these favorable conditions, strengthened its scientific experiments and improved its technology. Within a short time it began to produce 150 kinds of high- and medium-quality and daily-use delicate, brilliant and clear fine-china dinnerware sets and tea sets that are as beautiful and pure as jade and over 10 types of beautiful porcelain in over 300 colors and patterns. These products will be sold primarily to 38 countries and regions, including the United States and Western Europe, with annual exports of more than 14 million pieces. A number of the varieties to be exported will be new ones.

The setting up of export commodity production bases and special factories is an important step toward satisfying international market and consumer demand. It is also one strategic measures in the expansion of China's exports in order to develop trade with the outside world. Therefore, we

must undertake this as a long-term and steady operation and apply these goals to the point where there are export bases and special factories for each commodity and where each export base and special factory is producing high-quality, new-variety and marketable export products that will be welcomed by all consumers.

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FOREIGN TRADE AND INVESTMENT

NEW ECONOMIC ORGANIZATION DISCUSSED

Beijing GUOJI MAOYI [INTERTRADE] in Chinese No 3, Mar 84 pp. 3-4

[Article by Rong Yiren [2837 3015 0088], vice chairman of the National People's Congress and director of China International Trust and Investment Corporation: "The Developing Role of the China International Trust and Investment Corporation"]

[Text] The China International Trust and Investment Corporation [CITIC] was formally established on 4 October 1979, following the creation of China's policy to open up to the outside world. It is a business organization under the direct leadership of China's State Council.

CITIC's primary mission is to absorb and utilize foreign funds, to bring in advanced technology, equipment and management expertise from overseas and to carry out investment in construction. Its focus is on carrying out the technological transformation of existing enterprises and on natural resource exploitation. It is also considering investing in natural resource projects overseas in order to meet China's natural resource needs and to facilitate the speeding up of China's four modernizations.

Since the establishment of our corporation, we have received great support from the relevant departments of our country and our government. The State Council has made a number of decisions giving the corporation definite jurisdiction over each area of its business and granting it permission to try out some special policies and economic methods. The establishment of the corporation has also received a great deal of interest in the international realm. For the past 4 years it has taken initial steps toward breaking into the business and establishing a good level of trustworthiness through our reception of foreign visitors, our organization of trips and our specialized technological inspections and other kinds of international exchange activities. To date, we have already established all kinds of business relationships with the financial and commercial circles of nearly 60 countries and regions and with most domestic provinces and cities and relevant departments. We have developed various forms of business cooperation and have attained satisfying results.

With respect to absorbing and raising foreign funds, the corporation has already started the development of channels for work in international finance and has signed business transactions and cooperation agreements with nearly 60 well-known banks and financial groups. It has undertaken the provision of overdrafts and short-, medium- and long-term credit worth over U.S.100 million. Since 1982 the corporation has also issued 10 billion yen in bonds in Japan. Currently, the corporation is in the midst of enthusiastically preparing trust and investment verifications for the issuance of U.S. dollars in Hong Kong.

With respect to the utilization of foreign capital, our corporation has already organized over 40 Sino-foreign joint ventures and corporations, which make use of funds that they themselves have raised overseas, and domestic joint-venture projects. We have brought advanced technology and equipment for domestic use. Included in these projects are large-scale renovation projects like China's Chemical Fiber Plant and large-scale technological transformation projects like the Zhuzhou Hard Metals Factory. These 40-odd projects will absorb and utilize close to U.S.\$300 million in foreign funds. Last year, the corporation also held discussions with Japan, the United States and a few West European countries regarding over 10 joint-venture projects, the majority of which will probably become a reality.

With respect to developing the leasing business, aside from those items managed by the corporation itself, the corporation has also invested in and organized the establishment of "China East" (a Sino-Japanese joint venture) and "China" -- two leasing corporations. To date, the corporation system has already used leasing methods in order to supply U.S.\$90 million worth of various kinds of equipment, among which U.S.\$16 million have been imported from overseas, to 250 domestic industrial and mining enterprises.

With respect to managing the real estate business, funds have already been raised for the building of a 29-storey, 64,000-square-meter corporate building. It is estimated that the building will be completed in the first half of next year. It will then be opened for rental to representative offices of foreign companies in Beijing and their residents. At present, we are enthusiastically making plans for the construction of a second set of buildings.

Aside from this, in order to strengthen our international exchanges, we have established a branch office in Hong Kong and have opened separate representative offices in Japan and France. These overseas organizations have done a great deal of work toward establishing a mutual Sino-foreign exchange of information, introducing new customers and providing consultant and other services. From this day forward, similar organizations will be established one after another in other relevant countries as needs arise.

Last spring, the State Council approved our corporation's development of overseas investment operations and the development and utilization

of natural resources overseas. Prior to this, in accordance with China's actual needs, we centered on paper, timber and potash fertilizer and made agreements with the relevant departments to carry out fact-finding investigations of the key natural resource-producing countries. We obtained the relevant natural resources and did not entrust relevant foreign and domestic consulting organizations to carry out feasibility studies. In order to develop our overseas investment business soundly, our corporation is in the midst of developing a concrete strategic plan for the next 7 years.

In sum, over the past 4 years our corporation has grown out of nothing into something and has developed gradually. In every area there has already been some sort of development. Our number of personnel has already increased to over 200. Our business has blossomed in an overall manner and our primary administrative spheres now include the following 10 areas:

1. Organizing of joint Sino-foreign ventures, cooperative production, compensation trade and other various forms of economic cooperation;
2. Carrying out domestic and overseas investment transactions;
3. Developing Sino-foreign technological cooperation;
4. Managing international financial business, including absorbing trust investment and trust deposits and issuing bonds;
5. Handling the import/export business of the corporation's investment enterprises;
6. Managing domestic and overseas leasing transactions;
7. Managing real estate business;
8. Providing consulting services to domestic and foreign customers;
9. Providing safety insurance to foreign businesses investing in China;
10. Managing the various designated representatives relevant to each of the above-mentioned operations and other related matters.

With respect to the above-mentioned administrative spheres of the corporation's operations and the few autonomous jurisdictions of the designated national corporations, the corporation has actually already become an economic entity that has integrated the four areas of finance, production, trade and services. By emphasizing the absorption and utilization of foreign funds and the introduction of advanced technology, equipment and management expertise, it has developed a number of areas of business. This is the type of comprehensively administered economic organization that China still does not have. This form of management will

really facilitate our corporation's independent and autonomous development of domestic and foreign business in line with the arrangement and needs of the state's construction plans. For the past few years, we have faced the reality of having to provide domestic and international service to joint-venture and cooperation enterprises that are spread out into cities and provinces throughout the country. Last year we participated in the investment in the Yunliu Engineering Company in the Shenzhen Special Economic Zone as well as in the Hualian Textile Products Company there. In Macao we participated in the investment in the Macao Cement Plant.

The formation of these joint-investment enterprises has produced a favorable reaction at home and abroad. A number of foreign businesses have indicated their hope that we will develop further these various forms of cooperation.

An important principle of China's economic construction is to implement the policy of opening up to the outside world, expand foreign trade and economic and technological exchanges according to the principle of equality and mutual benefit, enthusiastically bring in advanced technology and expertise suitable to China's economic situation and strive to absorb these developments in order to strengthen China's self-reliance and to advance the four modernizations. For the past 4 years, our corporation has followed these principles and has made achievements in introducing and drawing upon some of the better economic methods of the Western countries. For example, we drew upon the lessons of and introduced the internationally adopted leasing business methods and issued bonds on the international capital market. After introducing the leasing methods, we played an advanced role in accelerating the speed of China's technological transformation of small and medium-sized enterprises, and we received deep gratitude for this at home. After the corporation completed the issuance of yen-denomination bonds for the first time, we attained some experience in entering the international capital markets and received favorable criticism from international financial circles. We really believe that we have made new developments in China's use of foreign funds.

Under the premise of stressing economic results, our corporation's developing business will thoroughly uphold the principle of equality and mutual benefit in our dealings with the outside world in order to facilitate the appropriate results that should be achieved in the course of cooperating with foreign businesses and in order to let them receive our country's relevant legal protection. Aside from this, we are also paying attention to and listening to the suggestions of our domestic and foreign customers. We are continually improving our work, increasing the speed of our work and improving the quality of our service, and we have received many favorable comments in this regard from foreign commercial circles. Last November, the Swiss Management Center convened a conference in Zurich on the problems of the Chinese economy. There the Weiner Corporation of the Federal Republic of Germany introduced its experience in establishing a joint venture in Tainjin and praised our corporation for its role in

mediating between the two sides in their cooperation and negotiations. It is precisely because of these above-described special characteristics of our company that we are seeing steady annual increases in the number of Sino-foreign customers interested in our negotiating services. By the end of last year, our foreign-customer base had increased to over 15,000 persons, and our domestic-customer base had reached 12,000.

Currently, China's political situation is stable, and our national economy continues to develop steadily. Reforms are being carried out smoothly and the relevant laws dealing with foreign trade are being improved day by day. Not long ago, China officially propagated its "Regulations on Joint Sino-foreign ventures and the expansion of administrative autonomy for these ventures as well as other favorable treatment such as the conditional expansion of China's domestic market for joint-venture products. It is also well known that China's natural resources are abundant, that the market potential is great, that the investment environment is favorable and so on. All of these have provided favorable conditions for investment in our country by our friends from other countries, the overseas Chinese and our compatriots in Macao and Taiwan.

The China International Trust and Investment Corporation has already been in existence for 4 years. In the course of our development from this day forward, we will strive to raise the effectiveness of our work and the quality of our service. We completely welcome the discussion of all forms of investment business with persons of financial and commercial circles of all countries and wish to provide them with convenient and efficient service. We will continue to make contributions toward speeding up the course of China's four modernizations and advancing China's international economic exchanges.

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FOREIGN TRADE AND INVESTMENT

BRIEFS

INSPECTION RULES FOR PERISHABLE EXPORTS--Beijing, 30 Jun (XINHUA)--Beginning tomorrow, specific regulations come into effect concerning the inspection of all ships' holds and containers designed for the carriage of export perishable goods, according to the State Administration of Import and Export Commodity Inspection (SAIECI). SAIECI outlined the decision specified in two separate documents concerning regulations on the inspection of ships' holds and containers for carrying perishable exports. The new regulations, SAIECI said, are to guarantee the quality of perishable goods such as edible oil, foodstuffs and frozen products, protect the consumers and safeguard the legal rights and interests of various parties involved in China's foreign trade. Apart from meeting the terms of business contracts, the department said that all ships' holds and containers used for carrying perishable goods must be dry, clean, odorless, and free of pests; temperature control must be maintained; contaminating substances must be strictly segregated; containers must have clear marks and numbers and must be intact, as well as meeting all necessary requirements. The perishable goods involved in the regulations include bulk edible oils, various frozen goods, bulk cereals and oil-bearing seeds, as well as grains and foodstuffs packed in bags over 100 tons and above. [Text] [OW301424 Beijing XINHUA in English 1313 GMT 30 Jun 84]

WUHAN OVERSEAS INVESTMENT AREA--Wuhan, 1 Jul (XINHUA)--Wuhan, capital of central China's Hubei Province, will designate a commercial and tourism area for overseas and domestic investment. Together with Chongqing in Sichuan, the city is testing comprehensive economic reforms in an effort to streamline economic management and improve economic results. Enterprises to be set up in the proposed area will include Sino-foreign joint ventures, cooperative enterprises and businesses run by potential investors at home and abroad. Wuhan has a population of 5.9 million. Its industrial and agricultural production was valued at 13.6 billion yuan in 1983. [Text] [OW011747 Beijing XINHUA in English 1430 GMT 1 Jul 84]

YINGKOU CITY FOREIGN INVESTMENT--Shenyang, 2 Jul (XINHUA)--Yingkou City, a foreign trade port in northeast China, is to double its use of foreign investment in two years, according to city officials. The city plans to have 71 cooperative projects involving 75.17 million U.S. dollars in 1984 and 1985. To date, contracts of 10 projects have been concluded with foreign businesses. Between 1979 and 1983, the city used only 36.79 million U.S. dollars on 93 projects. The planned projects, in the form of joint ventures, co-production,

importation of technology and equipment and leasing, will help to upgrade 60 small and medium-sized enterprises, with the focus on textile, light, electronic and machine-building industries. Yingkou, a major producer of export commodities, has used over half of its existing foreign funds to upgrade its textile and light industries, which produce most of its exports. Technical transformation is expected to be carried out in all of Yingkou's 300 enterprises by 1990, the officials said. [Text] [OW020922 Beijing XINHUA in English 0907 GMT 2 Jul 84]

FIRM WINS FOREIGN CONTRACTS--Shenyang, 19 Jul (XINHUA)--The Liaoning International Economic and Technical Cooperation Corporation signed 10 contracts with foreign businesses worth 3,400,000 U.S. dollars (7,500,000 yuan) in the first half of this year. A senior official said today that the contracts involved providing nearly 300 workers and helping to run joint ventures overseas. Projects include chef service and a food flavoring plant in Nigeria, apartment houses in Uganda, marine fishing in Mauritius and a bicycle chain plant and water supply works in Pakistan. Construction of a gynecological and obstetrical hospital in the Arab Republic of Yemen started on June 3, and a restaurant joint venture with Japan should be ready to open in mid-August. In the first six months, the corporation sent seven study and bidding groups to Uganda, Iraq, the United States, Mauritius, Pakistan, Japan and Hong Kong, while receiving 11 delegations from foreign countries and Hong Kong. [Text] [OW191540 Beijing XINHUA in English 1430 GMT 19 Jul 84]

GOLD MEDALS TO PRC FIRMS--Beijing, 20 Jul (XINHUA)--Eight gold medals awarded to Chinese exhibits at three international fairs earlier this year were issued to the winners here on Thursday. Yang Bo, minister of light industry, and two vice-ministers, gave the medals and certificates of merit to the Jingdezhen Renmin (people's) Porcelain Factory in Jiangxi Province, the Beijing Carpet Company, the Beijing Lacquerware Factory, and the Suzhou Embroidery Research Institute and the Yixing Purple-Clay Stoneware Factory, both in Jiangsu Province. The medals and certificates were awarded to six exhibits from the units at the Leipzig International Fair in Democratic Germany, the Brno International Fair in Czechoslovakia and the Poznan International Fair in Poland. The fairs were held between March and June. Produced by the Jingdezhen factory, a blue and white porcelain dinner set with designs showing people fishing, gathering firewood, tilling and reading, won medals at the three fairs. A carpet with embossed flying phoenix designs from the Beijing company and a huge lacquer tray from the Beijing factory received two medals at the Leipzig fair. A longevity vase and tea set made of purple clay from the Yixing factory shared one medal. The carpet and a double-sided embroidered golden fish from the Suzhou institute also won two medals at Poznan. Minister Yang called on 12 million Chinese light industrial workers to produce more goods meeting advanced world standards. [Text] [OW201034 Beijing XINHUA in English 0819 GMT 20 Jul 84]

COOPERATION WITH OVERSEAS INVESTORS--Guiyang, 21 Jul (XINHUA)--Guizhou Province will offer overseas investors preferential terms in developing local resources. Wang Chaowen, governor of Guizhou, said today that the province plans cooperation with overseas investors in various forms. The province will take more

foreign capital, technology and personnel, itself providing sites, labor and resources. The preferential terms, approved by the provincial people's congress, include: --a 20 to 40 percent local income tax cut in the first 10 years of operation, irrespective of state tax exemptions or reductions, for joint ventures, cooperative enterprises and foreign-financed enterprises. --Permission for joint ventures and cooperative enterprises to sell some products in China when they have difficulties in marketing them abroad. --Permission for overseas staff to remit foreign exchange salary outside China after deduction of tax and living expenses, and an income tax refund on private local investments. --Preferential terms for site fees. --Priorities in design, construction, building materials and land. --The right to hire and fire. Governor Wang also announced an award scheme for successful overseas investors. [Text] [OW211654 Beijing XINHUA in English 1611 GMT 21 Jul 84]

HONG KONG MACHINERY EXHIBITION--Hong Kong, 10 Jul (XINHUA)--A "China machinery and equipment exhibition," sponsored by the China National Machinery and Equipment Import and Export Corporation, opened at the Hong Kong exhibition center on 9 July. The exhibition is scheduled to last 12 days. The exhibition, which covers some 2,100 square meters of floor space, includes heavy mining machines; petrochemical and general machines, machine and other tools; meters, instruments, and whole sets of automatic instruments; electric machines and materials and whole sets of power-generating equipment; farm machinery; general components; bearings, motor vehicles and their spare parts, and food-packing machines. Many of them were developed recently. Some new products, which were manufactured with imported technologies of foreign designs and parts in cooperation with famous foreign plants, are displayed in Hong Kong for the first time. Zhang Junxian, leader of the China machinery and equipment exhibition team, expressed the hope that after the exhibition the corporation will increase its business contacts and technical exchanges with firms handling Chinese machinery products in Hong Kong and with consumers there in order to explore into new prospects for trade and to promote its future development. [Text] [OW122146 Beijing XINHUA Domestic Service in Chinese 0752 GMT 10 Jul 84]

SHANDONG TRADE CENTERS--Four trade centers dealing with manufactured goods, farm and sideline products; cigarettes, wine, sugar, tea, food and sundry goods; and industrial and communications business opened on 1 August in Jinan, Shandong Province. Jiang Chunyun, deputy secretary of the provincial CPC Committee and concurrently secretary of the Jinan City CPC Committee, and Wei Jianyi, Standing Committee member of the provincial Advisory Commission, cut the ribbon for the manufactured goods trade center. Two trade centers also exist in Jinan. One deals with native and special products and was opened on 29 July, the other deals with grain and oil products and will be opened in the near future. [Summary] [Jinan Shandong Provincial Service in Mandarin 2300 GMT 1 Aug 84 SK]

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CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

REPORT ON HUNGARIAN ECONOMIC SYSTEM

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[Article by Meng Chuande [1322 0278 1795] of the Institute of World Economics and Politics of the Chinese Academy of Social Sciences: "Hungary's Economic Management System in the 1980's"]

[Text] Since the comprehensive reforms of 1968, Hungary's economic management system has undergone three major periods, namely the period from 1968 to 1973, known as the "golden age," the period from 1974 to 1978, a period of stagnation and the period of reorganization and recovery which began in 1979 and has seen continued development since the 1980's. Hungary has had its ups and downs in the reforms to its economic system and the reform tasks for the future are still very difficult ones. Nevertheless, the Hungarian people have come to appreciate the fruits of these reforms and both the party and government have accumulated a rich abundance of reform experiences and they will undoubtedly achieve new successes as they continue to probe.

1. The Background Behind Further Development of Hungary's Economic Management System

There have clearly been both unfavorable conditions and favorable factors within the continued development of Hungary's economic management system in the 1980's. The reforms of 1968 were begun with fairly favorable conditions in all areas. In international terms, on the one hand world capitalist markets were in a period of relative stability and this was extremely good for Hungary's foreign trade and the development of the entire national economy. On the other hand the vast majority of socialist countries were at that time carrying out or considering reforms to their economic management systems and this helped coordinate and promote Hungary's own reforms. On the domestic line, Hungary had learned harsh lessons from the 1956 affair while in 1957 the country began to implement new economic policies and some partial reforms and thus by 1968, the time when the reforms were implemented, the country had already done more than 10 years of preparatory work. This ensured a wide unity of thought and understanding among the people and had also ensured a certain amount of material reserves. In contrast to this Hungary's economic developments in the 1980's are far more complex and difficult. Hungary itself is a country poor in natural resources and it has to rely on imports for the vast majority of its raw materials and energy supplies. Most of the country's exports are processed industrial goods. After the

skyrocketing of world oil prices in 1973, increases in the price of energy and some raw materials far exceeded the rate of growth in industrial products and semi-finished products, and thus Hungary's terms of trade worsened by more than 20 percent between 1973 and 1980, resulting in a 10-percent decrease in national income. In order to avoid the inflation of the international markets, Hungary stepped up its budget subsidies for consumers and producers, creating an increase in the budget deficit. As a result of this the country was forced to take out massive foreign loans. Gradual increases in these foreign loans (at the end of the 1970's the country owed a total of more than US\$7 billion, US\$5.5 billion net) and increased foreign trade deficits (US\$1.2 billion in 1978) have led to an imbalance in Hungary's foreign trade and even in the entire national economy. This meant that the Hungarian economy was faced with enormous difficulties and challenges in the 1980's. Despite numerous discussions within the country and a basic agreement about further development of economic reforms in the 1980's, the difficulties in the economy and depth of the reforms means that the extent of agreement was nowhere near that of 1968. Yet even after the reforms of 1968, the effect of changing overseas developments resulted in relapses. Thus it is not hard to imagine that the reforms of the 1980's will involve sharp contradictions and fierce struggles.

Naturally, the reforms of the 1980's also have some favorable factors. First and foremost, the practical experience in reforms over the last 10 years or more have allowed Hungary to accumulate a great deal of valuable experiences and at the same time the long periods of theoretical research and integration of theory and practice means that Hungarian economists have a better understanding of the developmental laws of the socialist economy. Second, the reforms are being understood and accepted by increasing numbers of the masses. Finally, the latter part of the 1970's and the early 1980's saw a surge in reforms among most socialist countries and this has created a clear change in attitudes towards Hungary's reforms, with far less opposition and far more support and agreement.

Faced with such difficulties and the new demands of the economic situation and economic development, the Hungarian leaders and economists have had to carry out intensive research into domestic and overseas developments and in addition they have re-examined the progress of reforms since 1968, in particular the period of stagnation from 1974 to 1978 and as a result they have drawn the following major conclusions:

1. Only by upholding reforms can the difficulties that are faced be overcome and can the economy thus move into a new period of development. The changes in the world markets in 1973 struck severely at the Hungarian economy. At that time there were those who believed that the damage suffered by the Hungarian economy was created by the reforms to the system and that it was the result of the use of a flexible price system and an excessive emphasis on the role of market adjustments. As a result they believed that in order to overcome the difficulties present, it was vital to retreat from the reforms. Others believed that Hungary's economic problems were entirely the fault of the rocky international capitalist markets and that the problems were totally unrelated to the system itself and that the way to solve them was to make sure that both the domestic and CEMA market reduced by as much as possible their relations with the third market, namely the capitalist market. However, the vast majority of people believed that the cause of the difficulties were both international and domestic. Thus, for example,

inflation was both 'imported' and also 'domestically produced.' The domestic factors were divisible into two main areas. One was a lack of accurate estimates about changes in world economic trends and errors in economic policies. At that time one important school of thought held that the changes which occurred in 1973 were only a temporary phenomenon and that the difficulties would be overcome in a short time. This belief not only led to slow reactions to changes in international developments, it also meant an inability to quickly adopt accurate policies. When we analyze the situation from the angle of the economic management system we can also see that the economic system after the 1968 reforms was still far from perfect and it lacked in particular flexibility in responding to sudden and extreme changes in the international situation. This, in addition to a weakening and distortion of some of the reform principles after 1973, meant that the new economic system was unable to fully exploit its regulatory role on the economic processes. Hence the only accurate principle was and still is to uphold the basic principles of reform and further develop the present system.

2. It is absolutely vital to reform the system of economic organization. Hungary's new economic system includes three main tenets: the planning system; the adjustment system; and the organization system. The reforms of 1968 concentrated on the first two and no basic reforms are carried out on the last. This was mainly out of two considerations. One was that after the 1956 affair there was a major reorganization of the structure of Hungary's economic organization which set up the initial conditions for carrying out reforms to the economic system. Second, the implementation of reforms to the organizational system can touch on numerous questions related to personnel and thus can easily lead to political instability and hence even greater domestic and outside pressure. Furthermore, there was one other view, namely that as the system reforms were carried out and the economy developed, the organizational system would naturally adapt itself to changes in the planning system and the adjustment system. Practice has proven that the old organizational system could not adapt to the principles of reform, on the contrary it required that the reforms adapt themselves to its demands. Some departments actually went against the reform principles, and used old methods to directly intervene in enterprise management. This meant that the enterprises' autonomy was severely impaired while the basic principles of the reforms were also badly damaged and threatened to prove all pre-reform work and effort to be wasted. Hence it was felt that the organizational system must be reformed so as to guarantee smooth implementation of the economic reforms and promote development of the productive forces.

3. There must be further reorganization of the relations in the various forms of ownership and perfection to the forms of management. The reform decisions for the 1966 economic system pointed out the need "to simultaneously develop the two forms of the socialist system of ownership, namely state ownership and collective ownership (including the economy related to private plots of peasants)" and at the same time also pointed out "the necessity for the continued existence of the legal private economic sector." After the reforms Hungary carried out some readjustments to the relations in these systems of ownership on the basis of this principle. However, because the system was not complete or perfect it came up against obstacles and many difficulties continued to exist in the development of the organization of cooperatives up until the end of the 1970's, and private economic activities which benefited society continued to

suffer excessive restrictions. Furthermore management and administration was too centralized and this prevented market competition among enterprises and did not help improve economic results. The changes in international affairs in 1973 and afterwards caused this weakness in the Hungarian economy to get out of hand and thus enterprises reacted slowly to markets and it was difficult to reform product structure. Hence further readjustments to the relations in the systems of ownership and improvements to the forms of management have become important conditions for the system reform and for economic development.

The 1980's are an important decade for system reform in Hungary. However this reform is still a continuation and development of the 1968 reform and is not a "second reform" as some Western economists say. Famous economist and one of the principle advocates of Hungary's reform Nie Er Shen Lei Re [3206 1422 3928 71 3583] believes that the basic principles of the 1968 reforms can form the basis for further reforms. Further comprehensive and substantial improvements can be made on this basis. However, there is absolutely no need to carry out a "second reform." Some other economists believe that, looking at the entire history of reforms in Hungary, the reforms of the 1980's may be seen as the third crest of reforms to the socialist economic system, these crests being the 1957, the 1968, and the 1980 reforms. These three reforms are indivisibly and intensionally linked and the reforms started in 1957 were in actual fact the preparatory stage for comprehensive reforms, while the reforms started in 1968 were the initial stage of the comprehensive reforms and 1980 was the beginning of the entry into a new period of development. The famous Hungarian economist Ke Er Na Yi Ya Nuo S [4430 1422 4780 0181 8086 6179 3928] points out that the "reforms" of which we often talk are actually a long historical process and it has periods of fast development and periods of slow development and indeed at some times it may even regress. Not only does Hungary stress the phasal nature of reforms, it also stresses and takes note of the continuity of reforms, so as to ensure that the basic principles of reform achieve effective implementation.

2. Basic Characteristics of Hungary's Economic System in the 1980's

The basic characteristics of the 1968 system reforms, determined by the reform decisions for the 1968 system reforms also correspond with the economic system of the 1980's, in other words, "On the basis of the socialist system of ownership of the means of production, organically link up the centralized management of the national economy, which develops according to planning, with commodity relations, and the active role of the market."

We can summarize the basic characteristics of Hungary's system as "the integration of planning and the market." Some bourgeois scholars, starting out from this characteristic of the Hungarian system, and referring to Hungary's theoretical emphasis of the regulatory role of the market and the country's actual relaxation of restrictions on market activities, consider that Hungary now implements or very soon will implement a market economy. This view is incorrect. First of all it is necessary to correctly understand the real content of Hungary's concept of "the integration of planning and the market." Hungary stresses that "the planned management of the national economy is one of the most important features of a socialist society." The Hungarian constitution also clearly points out that the Hungarian economy is a planned socialist economy. The "integration of planning and the market" implies an integration of both planning adjustments and market adjustments under the principle of the planned economy and it does not in

any way imply an integration of the planned economy and the market economy. Within these relations of integration, planned adjustments occupy the dominant position and important macroeconomic policies and decisions such as the developmental direction of the economy, the speed of such development, and reforms to the structure of the economy are all manifested through unified national economic planning. Within the microeconomy it is mainly market adjustments which are used to flexibly balance market relations of supply and demand and thus achieve a planned national economy. Hence socialist market adjustments represent a method and means of achieving socialist planning. Nor is the socialist market a "laissez-faire" market, it is an organized market subject to the restrictions of planning. Thus it can be seen that in no way may we apply bourgeois "tendential theories" to understand Hungary's economic system.

Economists in some socialist countries, including some in our own country, believe that the role of Hungary's market adjustments is excessive. The starting point from which they examine the question is often such questions as how much the state controls planning targets, the proportions of state investment, and the proportion of free prices, and so on. Naturally it should be admitted that these figures and proportions are able to illustrate some tendencies, but they cannot reflect the essence of the question. One important question here is the efficiency and level of central management. When the standard of central management is high it is possible to implement effective market supervision and thus it is possible to coordinate various economic activities very well. At the same time it is also important to take note of the significance and effect of key departments and key projects. If the central authorities are able to gain a macroeconomic grip on key questions this will influence overall results. Furthermore as the economy develops, centralized control of the production and supply of some products has ceased to maintain objective necessity. Hence to analyze the relationship between planning and the market by simply looking at figures and proportions can often produce onesidedness. Real experience proves that the role of market adjustments in the Hungarian system is by no means excessive, on the contrary, the active role of the market has still not been fully exploited. One of the objects of the 1980's system reforms is to correct this phenomenon.

Some economists look at the changes in the Hungarian economic system, in particular the developments since the beginning of the 1980's and draw the conclusion that the Hungarian system will put more and more emphasis on the role of the market and weaken the role of state planning and thus gradually develop into a system with split powers. It must be admitted that Hungary seems to be stressing the role of commodity currency relations in every sphere. As everyone knows Hungary, like all other socialist countries, carried out highly centralized management during the early stages of socialist construction. It stressed that planning determined everything and it rejected the regulatory role of the market with the result that some abnormal phenomena emerged in economic development. One of the major tasks of reform was and still is to correct the shortcomings of the old system created as a result of the tendency to ignore the role of the market. However, traditional concepts and force of habits have prevented the completion of this task and thus it is necessary to stress the role of market adjustments. However this in no way implies a denial of centralized management or a rejection of necessary direct state intervention in economic life.

Hungarian economists understand that "at present socialist countries still do not have the conditions necessary for eliminating commodity relations and attempts to eliminate commodity relations too soon are damaging."¹

"The contradictions which emerge in economic life are not caused by commodity relations. Quite the opposite, the existence and nature of these contradictions requires the retention of commodity production, for otherwise there would be no way to achieve economic planning."² Socialist society will need to preserve and develop commodity production for a long period of time and the main reason for this is that those countries which today have achieved socialist revolutionary victories are not the most advanced and developed capitalist countries as the teachers of the revolution had originally imagined they would be, rather they are countries with rather backward economies. Not only did these countries face the economic difficulties created as a result of the ravages of war and political turmoil, they were also faced with the arduous task of restoring and developing the economy as well as completing the mission of economic development which should have been completed by the capitalist society. At the same time the socialist economy will have to continue to exist for a long time along side capitalist societies, linked with and struggling against the world's capitalist economy. We can say that today is a special period for socialist economic development. During this period the socialist economy must recognize and make conscious use of commodity currency relations and the law of value before it can effectively promote economic development and set up the material foundations for the final victory over capitalism. However, all of this does not mean that we can in any way ignore the primary role of the laws of planned development of the socialist economy. Commodity production in a socialist society can only be planned commodity production and the law of value can only be expressed when the socialist laws of planning occupy the dominant position. During the preparatory period of reforms, at the same time as it criticized the theory of the unique importance of will and the theory of the omnipotence of planning, Hungary also criticized economic law fetishism, pointing out that economic laws merely indicate the trend and direction of economic development and did not imply that there was only one possibility for economic development and that no other choices existed. Furthermore it sometimes happened that the effects of various laws were mutually contradictory and the search for the correct relations between these laws was a task for economic leaders. Hence central planning not only passively corresponds to economic laws, it also has an active and motive effect on economic development. In order to achieve planned and proportional development of the national economy, in addition to economic adjustments, direct administrative intervention by the state is in some circumstances absolutely necessary, otherwise it is not possible to ensure complete realization of social interests.

From this it can be seen that Hungary's new economic system is the result of active policy decisions on the basis of analysis of the basic laws of the socialist economy and socialist economic practice. Recently, the famous economist Bo Ge Na Er Yue Se Fu [0590 2706 4780 1422 4766 3844 1133] said that

1. Mo Er Wa Tuo Ma Si [5459 1422 3907 2094 7456 2448] "Socialist Planning and the Market Mechanism" from the Hungarian publication ECONOMIC REVIEW No 3, 1966.

2. Ibid.

Hungary's system was "a model of decentralized powers under high level central management." This interpretation includes the following few implications. First, that centralization and decentralization are unified and this system demands both; as far as economic adjustments are concerned, there is a need for planned adjustments and market adjustments. This point clearly differentiates this model from a highly centralized system of management which rejects the active role of market adjustments, it is also clearly different from the decentralized model which rejects centralized unified planning of the national economy (state planning) and necessary administrative intervention. Second, that in centralized and decentralized powers, effective centralized management is an important premise for decentralized powers. In addition market adjustments serve to achieve the planning of economic development. Finally, that the development of this system is two-directional, namely, at the same time as constantly improving the level and efficiency of centralized management, also achieving a reasonable decentralization of power and achieving the democratization and socialization of economic management.

In addition to the above-outlined basic characteristics, the Hungarian economic system in the 1980's also has its own individuality. The individuality of every period manifests itself in the content of the major reforms of that period. The reforms of the 1980's mainly fall into two categories. On the one hand there are continued reforms to the planning system and the adjustment system and these are categorized as intensifications of previously undertaken reforms. On the other hand there are reforms to the organizational system which includes further readjustments and reforms to the relations of the systems of ownership and these are categorized as an expansion of the sphere of reforms. This all means that the reforms of the 1980's are comprehensive and intense. In addition, reforms to the organizational system also imply that the focus of the reforms are changing from adjustment of the economic processes and the distribution of business incomes (profits), to readjustment of the structure of management and administration and the sources of income (profits). Hence the reforms of the 1980's are enormously significant.

3. Basic Content and Developmental Trends of the 1980's System Reforms

1. In 1968 the command planning system was abolished and enterprise autonomy was expanded. During the 1980's there will be continued modernization of the planning system and a development toward a more scientific style of national economic planning. This includes: increased adaptability of planning so that planning becomes more flexible and more open. Further strengthening of forecasts for domestic and overseas economies so that various plans can be drawn up on the basis of these forecasts and this will ensure that while plans are being implemented they may be flexibly adjusted on the basis of developmental changes. The first 3 years of each 5-year plan can include concrete measures and policies while the latter 2 years can fix the concrete content on the basis of implementation during the previous 3 years. In addition to 5-year plans there may also be two or three year plans drawn up. Thus Hungary's understanding of planning has clearly improved, for the nature of planning should not simply be regarded as the state of completion of planning targets, it is also necessary to look at the effect of planning on supply and demand relations. If the national economy achieves balanced development and if the structure of the

national economy is improved, this will mean that the nature of planning has been realized. It is also necessary to ensure value balance in the plans. As commodity relations develop and the role of market adjustments strengthens, value targets and indexes will have to be increased and material targets decreased, weakening the effect and role of material balance and thus bringing about an ever better comprehensive balance of the national economy. In order to promote a comprehensive balance in the national economy it is also necessary to strengthen the comprehensive nature of planning and hence intra-departmental comprehensive plans must be drawn up on the basis of development projects, while in addition unified centralized management and centralized comprehensive utilization of funds and development projects must also be improved. Furthermore, there must also be further improvements to the socialization and democratization of planning.

2. Improve the efficiency of the system of economic adjustments. In 1980 the competitive price system was introduced, aimed at achieving a closer link between domestic prices and international market prices so that the international market situation would become an important marker in evaluating economic results in enterprises. The basic principle of this system is that domestic prices of raw materials and energy are drawn up on the basis of import prices from non-ruble regions. The domestic prices of competitive products from industrial sectors are drawn up on the basis of the level of prices of exports to ruble regions. At present 70 percent of industrial products and 40 percent of all social commodities, are involved in this price system. Although this price system is not yet perfected, there is considerable controversy about its pros and cons. However, over the last few years it has played an important role in promoting structural reforms, improving economic results, and restoring a balance to the national economy. Hence in the 1980's Hungary will gradually popularize this system in industrial sectors. In addition there are plans to spread the system in stages to the building industry and other sectors of the national economy. As far as price forms are concerned, there will be further reductions in officially fixed prices and an increase in free prices.

Reforms to the financial system in the 1980's are aimed at rigorousness and standardization. Rigorousness implies an even clearer division in and clarification of the relations of income distribution between the central authorities and enterprises and between the central authorities and regions, as well as further reductions in financial subsidies. At the same time there will also be corresponding reductions to income deductions, (there will be gradual drops in the profit tax rate so that the proportion of actual utilization of enterprise profits will increase from today's 20 percent to around 30 percent). Preparations are being made to implement an individual income tax, in other words the levying of a unified tax on citizens' jobs and second economic income. These measures will help expand financial autonomy for enterprises and will have a stimulative effect on increasing profits, while also helping to bring about a comprehensive balance in and management of finances. Furthermore there will also be gradual improvements to wage rates and the value of live labor will be increased so as to promote economization on live labor and speed up technological reforms. In 1984 wage rates will improve from 30 percent to 40 percent. Standardization implies strict standards, a cut back in exceptions and an increase in the unified nature of financial adjustments.

For example, the gradual implementation of a standard circulation tax rate and a reduction in the number of tax rates and the abolition of the wage tax and the retention of only social insurance fees and a corresponding increase in fee payment rates. As far as fund utilization is concerned, there will be a gradual implementation of an investment bank loan system while in 1980 the fund payment system was abolished. Rigorousness and standardization in implementing financial adjustments represent an important way of improving the role of economic adjustments.

Wage adjustments in the 1980's will move towards further simplification of the system and a strengthening of the stimulative effect of wage adjustments, so as to realize even better the socialist principle of distribution according to labor. In 1980 Hungary began to implement six forms of wage adjustments. Those enterprises which are able to increase profits mainly through improvements in management standards and labor productivity practice a total wage amount system and average wage system introduced, in which these systems are linked to the results of enterprise management. Apart from state stipulated tax-free recoverable wage targets, these enterprises can recover tax-free wages according to the coefficients stipulated for that year and on the basis of the newly increased net production value targets. In those sectors in which management conditions are fairly restricted such as the coal industry, the electrical power industry, and service industries, a wage total system and an average wage system is implemented and drawn up by the central authorities, and the extent of wage increase for that year are determined by the central authorities. Those sectors and enterprises which straddle two different kinds of situations are subjected to a wage total system and average wage system, linked to enterprise achievements and determined by the central authorities. A decision on the implementation of a wage total system or an average wage system in any enterprise mainly depends on whether or not there is a need to encourage the enterprise to reduce its number of workers. The implementation of the wage total system helps streamline of the administrative structure and reductions in personnel. In 1983 there were further reforms to the wage system. The six forms of wage adjustments were reduced to three. The first was a centralized and unified wage system implemented in state bodies and so on by work units handling budget allocations. The second was wage adjustments linked with the management profit rate and also linked to central authorities' stipulations, carried out on non-competitive economic sectors. The third kind was wage adjustments linked to profit rates, carried out in competitive economic sectors. The new wage system has overcome the excessive complexity of the former wage system and in addition, because it has replaced net production value targets with profit rates for that year, the stimulative effect of the system has been increased and this has been of benefit in constantly improving labor productivity and economic results. Enterprises have also been given increased autonomy in determining workers' wages. In 1984 a new wage grade principle was introduced so that enterprises and workers might have greater decision-making powers in drawing up wage grades and actual wage levels, and in some cases certain wages are mainly determined according to labor relations contract consultations.

3. Reforms to the organizational system. Beginning at the start of the 1980's Hungary began reforms to the organizational system on two levels. On the state level there were improvements to the central authorities centralized planning coordination bodies. In 1980 the state economic

committee was established to coordinate the implementation of planning and guide international economic relations. Hungary is also preparing to further expand the national assembly's power of direct intervention in the economy and expand the rights of economic involvement of various interest-representative bodies, so as to strengthen coordination between overall national planning and the interests of all of society. Functional sectors have also been improved and strengthened, such as the role of the comprehensive national economic sector (the Department of Finance, the State Goods and Materials and Prices Bureau, the State Wages and Labor Bureau, the State Bank, and so on), so as to allow more effective centralized and unified adjustments to economic activities and achieve a comprehensive balance in the national economy. At the same time the sphere of functions of specialized sectors (the Department of Industry, the Department of Agriculture and Food Products, and so on) is being reduced to ensure that they concentrate all their efforts on drawing up development policies and promoting structural reforms, while reducing the amount of intervention in the management activities of enterprises. In 1981, the Departments of Heavy Industry, Light Industry, Metallurgy, and Machinery were all amalgamated into one Department of Industry and the number of organizations and personnel was reduced by more than half. Hungary is also studying an amalgamation of the Departments of Foreign Trade and Commerce as well as the abolition of such problem areas as the urban construction department. On the level of enterprises there is a trend towards cutting down on over-centralization, overcoming monopoly, and implementing more flexible economic management. To this end some trusts and major enterprises are being disbanded (only large-scale management units with internal links within the economic process are being retained) and to date 18 of 24 trusts have been disbanded allowing completely independent rights of management to more than 100 enterprises. On the other hand encouragement and support is being given to the construction of new medium and small scale enterprises. There is another trend toward reform of the cadre appointment system. In large scale enterprises there is a gradual move from the state appointing all important leaders to the state only appointing the most important leaders (managers or general managers). Other leaders are selected by appointed cadres, and the election system is being gradually increased in enterprises, especially medium and small-scale enterprises while in addition the engagement system has begun to be implemented.

Further readjustments to the relations of ownership. Since the beginning of the 1980's Hungary has made great efforts to expand the system of cooperative ownership, expanding various kinds of cooperative management not only in agriculture but also in service industries and in industry. For example, joint cooperative management has been implemented and small-scale cooperatives have been set up and indeed even state-run enterprises may set up their own small cooperatives. This measure has improved management and administration and has helped the realization of the socialist principle of distribution according to labor. Suitable development of various kinds of privately-managed economies represent another important developmental trend of the 1980's, and flexible individual or joint private management activities have been playing an important role in maintaining and improving levels of consumption and standards of services for citizens. Today Hungarian economists are researching the position and role of privately-managed economies and individual ownership in this period of socialist development. Some people point out that individual ownership in a socialist system can be seen as a socialist system of ownership by the citizens and that it may be regarded as a special form of socialist ownership. An important aim of the reforms to ownership relations is to clarify the

ownership functions of state-run enterprises. In the past the responsible authorities, that is the administrative managers, were also the representatives of state ownership and this made it very hard to achieve a system of management responsibility. It was also very hard to avoid excessive administrative intervention on the part of these authorities or departments. Today some people in Hungary advocate an approach in which enterprise ownership rights or powers are divided into strategic policy powers and tactical policy powers. Tactical policy powers, namely, everyday management and administrative powers, include the power for circulating some funds and some labor force being handed over to the enterprise. At the same time not only could workers draw an income from the distribution of profits, they could also earn dividends from buying share certificates. In some sectors the use of strategic policy powers would take two different forms. One would be the independent establishment of a property management sector or surveillance sector to carry out unified management of important policies in state-run enterprises' property funds and to handle the problem of cadre appointments. The other would be the establishment of a two-level form of leadership of enterprises, one level being the enterprise management committee, mostly made up of relevant bodies from the central authorities and representatives of social organizations. Enterprise leaders would also send people to participate and the management committee would exercise strategic policy powers. The second level would be the manager committee, made up of enterprise leaders and workers' representatives, and being responsible for tactical policies. It is easy to see that a division of the ownership rights and powers in state-run enterprises would help improve the economic results of enterprises and reduce loss-making production while also speeding up reforms to the structure of the national economy. In addition, the implementation of diversified forms of management within the various forms of ownership, such as contract management, shop rental, and the establishment of small labor groups are also important measures in reorganizing the relations of ownership.

Since the beginning of the 1980's there has been some development in Hungary's economic system and the difficulties it faces. During the first few years of the 1980's the rate of growth of the national economy remained at only about 1 percent. In fact in 1980 it even dropped to 0.8 percent. This is closely connected to Hungary's changes in its strategies for economic development, its conscious slowing down in the rate of economic growth, the shift in the focus to restoring and strengthening a national economic balance, and maintaining the present standards of living for the people. At the same time it also illustrates the serious difficulties in which Hungary's economy finds itself and the fact that growth plans have not been fulfilled for some years now. However, after the gradual restoration of the national economic balance in 1981, the last two years have seen a favorable trade balance with Western countries of more than US\$500 million and there has been a basic maintenance of former standards of living and thus definite conditions have been laid down and prepared for major system reforms in the mid-1980's and for improvements to the rate of national economic growth (to an annual average of 2-3 percent).

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

ECONOMIST DISCUSSES INTERNATIONAL ECONOMIC ORDER

OW261840 Beijing XINHUA in English 1703 GMT 26 Jun 84

[Text] Beijing, 26 Jun (XINHUA)--The trend to change the existing international economic order has become irresistible, said Chinese economist Huan Xiang here today.

He was addressing a Beijing symposium commemorating the 10th anniversary of the adoption of the "declaration of the establishment of a new international economic order" and the "program of action on the establishment of a new international economic order."

Huan Xiang said that this trend reflected not only the desire of Third World countries for national prosperity, but also that of people all over the world for world economic recovery and the establishment of a peaceful, just, mutually beneficial and cooperative international community. It had the firm support of ordinary people and progressive figures worldwide, he said.

But it involved basic changes in international economic relations and would inevitably meet with strong resistance from interest groups, he noted.

The stubborn attitude of a few developed countries had held up the development of global negotiations and north-south negotiations.

He praised the Group of 77 for its increasingly important role in international economics, actively exploring effective ways to push forward south-south cooperation and north-south negotiations in face of severe challenges.

Huan Xiang also called for a correct and close link between the long-term objective of establishing a new international economic order and the solution of current pressing problems.

"It is a long-term and difficult historic task of the Third World countries and people to change the systems of international production, international trade and international finance based on the monopoly of a few developed countries and to establish a new international economic order. It is unrealistic to wish this task be accomplished in a short time. At present, the Third World countries are confronted with many pressing economic problems, for example, the payment of debts, the expansion of manufacture exports, the stabilization of the prices of raw materials and the increase of development aid and other capital transfers, etc.

"In recent years, under the double blow of sharp drops in exports and high rise in interest rates, the developing countries have an ever-increasing debt burden.

"It is necessary for the developed countries to adopt effective measures and to carry out their commitments to lessen the debt burden of the developing countries.

"The economic development of the Third World should first of all rely upon its strength from within. The success or failure of the struggle to establish a new international economic order is also decided by the total power of the Third World, to increase the capacity for self-reliance and collective self-reliance will not only facilitate the economic development of developing countries, but will also strengthen the negotiating position of the developing countries vis-a-vis their developed counterparts, push forward north-south discussions, facilitate changes in international economic relations and the establishment of a new international economic order," he said.

Huan Xiang said that during the last few years, the progress of north-south dialogue has shown that many developed countries were willing to make some concessions to certain demands of the developing countries.

"On the basis of strengthening its own unity, the Third World should strive to win over as many developed countries as possible, to orient north-south dialogue and the struggle to establish a new international order so as to strengthen the economic position of the developing countries and vitalize the world economy at present, the standpoint of the United States Government towards north-south dialogue is most stubborn. Its uncompromising attitude often leads to its own isolation. Here we advise the few developed countries that adopt a cold and obstructive attitude towards north-south dialogue and the establishment of a new international economic order to make a clear reassessment of the situation, to express sufficient political goodwill and to take a more flexible attitude," he said.

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CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

JINGJI RIBAO ON U.S.-JAPAN FINANCIAL CONFLICT

HK260730 Beijing JINGJI RIBAO in Chinese 5 Jun 84 p 4

["Analysis of International Finance" column by Le Shaoyan [2867 4801 1963]:
"Financial Conflict Between United States and Japan Far From Resolved"]

[Text] On the questions of the internationalization of the yen and the liberalization of Japan's financial markets, the Japanese Ministry of Finance announced on 30 May the "Report of the Japan-U.S. Yen-U.S. Dollar Committee" and a report entitled "The Present Situation of the Prospects for the Liberalization of Finance and the Internationalization of the Yen." These two reports were finalized at a meeting of the committee for the drafting of the second report of the Japan-U.S. "Yen-U.S. Dollar Committee" which concluded in Rome on 23 May. The conflict between Japan and the United States on financial matters is eased for the moment by these two reports, but the real test of strength is about to start.

It was clearly stipulated in these two recently published documents that Japan agreed to allow foreign governments and institutions to issue Euroyen bonds, starting 1 December this year, to remove restrictions on short-term Euroyen loans to issue short-term transferable Euroyen certificates, and so on. On the abolition of withholding tax on Euroyen bonds and the removal of restrictions on medium- and long-term Euroyen loans, Japan indicated that decisions would be made before the end of this year and April next year respectively. On the liberalization of Japan's financial and capital markets, Japan agreed to allow branches of foreign banks in the country to enter the trust business on their own, to issue small-denomination transferable certificates of deposits, and to set up a government short-term securities market and a bills market, with the bank acting as the acceptor. As for the request put forward by the United States to deregulate interest rates, the report said that "steps will be vigorously taken."

The bargaining between Japan and the United States on financial matters began in September last year. After President Reagan's visit to Japan, during which he urged his host country to liberalize its capital markets at an early date, and after numerous heated bickerings and talks since February, Japan made concessions. This was how the report came about.

The financial conflict between Japan and the United States indicates that economic frictions between the two countries have moved on from "goods" to "money." This is essentially an extension of trade frictions. In recent years, the United States recorded sharp increases in trade deficits vis-a-vis Japan.

Deficits amounted to US\$23 billion in 1983, and the figure is expected to be still higher this year. The United States believes that the imbalance in Japan-U.S. trade is mainly caused by the low rate of exchange of the yen, which has facilitated the flow of Japanese goods into U.S. markets. It is believed that if Japan removes its "financial obstacles" and allows foreign capital to enter Japan, the rate of exchange of the yen will rise and the imbalance in Japan-U.S. trade will be substantially rectified.

The appeal made by the United States for Japan to open its financial markets and to introduce liberalization measures can be seen as the beginning of a new test of strength in Japan-U.S. economic relations. Though helpless in the face of Japan's powerful offensive in visible trade, the United States is pre-eminently competitive in such aspects of invisible trade as finance and insurance. In 1982, the United States sustained deficits amounting to US\$36 billion in visible trade, but scored surpluses of US\$33 billion from receipts and payments in such categories of invisible trade as finance and insurance. In addition, Japan is a very promising and unopened market. The United States hopes to open a new "battlefront" and to defeat Japan in the invisible trade war.

In recent years, the United States has stepped up its offensive and urged Japan to work out an early solution for the internationalization of the yen and the liberalization of the financial and capital markets. This is also a move designed to win more votes for Reagan in this fall's presidential elections. Reagan's arms expansion line has benefited the financial groups of the western states. The steps taken to force Japan to extend its self-imposed limitation on automobile exports to the United States proved to be profitable to the financial groups of the central states. The present drive to force Japan to make concessions on such matters as the opening of its financial and capital markets is actually promoted by suggestions made by the financial groups of the eastern states. Thus, it is not difficult to secure their support.

Both Japan and the United States have time and time again indicated that they wish to solve the question of financial conflict as quickly as possible. However, the genuine implementation of the internationalization of the yen and the liberalization of the financial market will exert a great influence on the Japanese economy. Therefore, it is by no means easy to have a thorough solution of this issue. After being internationalized, the yen will be exposed to the onslaughts of speculation. Besides, the huge amounts of idle funds moving in and out of Japan will lead to currency and economic unrest in the country. Moreover, the abolition of withholding tax on Euroyen bonds not only will reduce government revenue but will shake the foundation of Japan's taxation system. Since interest on Euroyen is based on changes in supply and demand, interest rates in Japan will be affected by the Euroyen market once medium- and long-term Euroyen lending is permitted. In addition, the internationalization of the yen and the opening of Japan's financial markets will also increase the competitive power of foreign banks.

Although Japan and the United States have reached an agreement on financial matters, it does not mean that the financial frictions between the two countries have been resolved. The day Japan's financial and capital markets are opened will also be the time that a new test of financial strength between Japan and the United States begins.

BRIEFS

LABOR STANDARDS LAW--Taipei, 30 Jul (CNA)--President Chiang Ching-kuo promulgated the Labor Standards Law on Monday, and it came into force immediately. The law, passed by the Legislative Yuan near the end of the 73d session, has been deemed a great achievement in enabling more harmonious relations to develop between labor and management. The Ministry of the Interior on Monday called a meeting of responsible officials to map out ways and means of enforcing the provisions of the newly enacted law. Legislator Li Yu-chi, who was the prime mover getting the labor act through the legislative process, urged the government agencies to accelerate the process in writing the enforcement rules of the law. In the meantime, the Ministry of Economic Affairs also convened a meeting of its department chiefs to find out whether there are problems in application of the law. [Text] [OW310257 Taipei CNA in English 0233 GMT 31 Jul 84]

CSO: 4020/163

HONG KONG MEDIA ON CHINA

STOCK MARKETS PROPOSED FOR SPECIAL ECONOMIC ZONES

HK300400 Hong Kong HONG KONG STANDARD in English 30 Jun 84 p 1

[Report by Chiu Kit-ying]

[Excerpt] China is contemplating setting up stock exchange markets in its Special Economic Zones (SEZ) and issuing bonds in Hong Kong.

It is also looking into a proposal to issue a third currency (on top of renminbi and foreign exchange certificates) in SEZs, to maintain a one-to-one exchange rate with the Hong Kong dollar.

This is to smooth trading transactions between Hong Kong and SEZs to further promote tourism. The plan was revealed yesterday by the chairman of the Hong Kong Stockbrokers Association, Mr Sunny Ng, who is in Beijing as the head of a 15-member delegation.

They held talks with Chinese officials from the People's Bank of China yesterday in the Diaoyutai state guest house where they are staying.

Among those they met were Mr Yang Wenyong the deputy chief of the Administration Department of the bank's foreign department and Mr Che Peiqin, the acting director of the bank's foreign business administration department.

Mr Ng said China attached great importance in maintaining and continuing Hong Kong's prosperity from now on into post-1997.

This was shown by China's plans to enhance trading relations with Hong Kong and using the territory to help its modernisation.

Mr Ng said the stock exchange proposal, made by the association, is aimed at helping investors in China collect funds in renminbi.

"This is because in China, many people have become better off and will have savings, maybe of 2,000 to 3,000 renminbi.

"Such a scheme will help investors in China collect funds and on the other hand, help China's modernisation," Mr Ng said.

He said China had asked the association to submit a detailed proposal later.

Moreover, Mr Ng said, China had given serious consideration to issuing bonds in Hong Kong to attract foreign funds.

"If China is to issue HK\$100 million in bonds, it would arouse interest from foreign investors and money injected would indirectly strengthen the local currency.

"The foreign currency flow will boost financial activities in Hong Kong," Mr Ng said. He said China had already issued bonds in Western European countries and Japan. It also agrees that Hong Kong is also a great potential market.

The association suggested China issue a special SEZ currency to equate with the Hong Kong dollar.

"This will not only smooth financial transactions between Hong Kong and the special economic zones, and will also convenience tourists," he said.

Mr Ng said China may maintain the one-to-one exchange by using other currencies such as the RMB and the US\$ to back up the new currency in the SEZs.

Mr Ng said the People's Bank of China had revealed to the delegation it would soon launch measures to develop itself into an international bank.

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HONG KONG ECONOMIC TRENDS

BANKS LOWER PRIME RATE TO 15 PERCENT

HK030310 Hong Kong SOUTH CHINA MORNING POST in English 3 Aug 84 Business News Supplement p 1

[Article by Diane Stormont]

[Text] Hongkong's business community will be heaving a collective sigh of relief following the pruning of the prime rate back to 15 percent.

The two percentage point slash brings the prime rate down from the 17 percent level borrowers have had to contend with since July 6.

In line with the prime rate cut, deposit interest rates were also cut by two percentage points across the board.

A specially-called interim meeting of the Hongkong Association of Banks (HKAB) yesterday took the decision to cut rates following the recent stabilisation of the money markets.

The chairman of the Hongkong Association of Banks, Mr Bill Brown, told BUSINESS NEWS interbank rates had been trading at levels below the prime and looked set to fall further.

The cut would have been made earlier had it not been for the political events earlier in the week, he said.

The events--namely Wednesday's announcement by the British Foreign Secretary, Sir Geoffrey Howe--was perceived as a catalyst for the decision by many analysts.

But Sir Geoffrey's announcement was not the prime mover, Mr Brown said. However, it had an indirect effect, serving to instil further confidence into the market.

Reaction to the move was positive across the board.

It's a confidence booster, bankers say.

The effects are expected to trickle through to the stock exchange.

It's very good news for Hongkong and shows that confidence has returned. The rates only went up because of the lack of confidence--they were out of line with market fundamentals, one source noted.

The reduction is expected to give a boost to the commercial sector which has suffered from high interest rates for this stage in Hongkong's economic cycle.

The flagging property market, weighed down with debts taken on before the slump, was singled out as a particular beneficiary by several analysts.

Following the HKAB announcement, the Hang Seng Bank issued a statement informing mortgage holders that their rates had been cut two percent to 16.5 percent.

Manufacturing industries are also tipped to gain.

At 15 percent, however, the Hongkong prime rate still commands a premium of about two percentage points over the U.S. rate.

There is room for further reductions, one banker said.

The extent of the cut was right, another said. It pays to be a little cautious until further details arising from the Sino-British talks emerge as there are still many questions to be settled.

Mr Brown did not rule out the possibility of another downward revision, but pointed to exchange rate factors as a possible hurdle to this end.

The Hongkong dollar remains artificially depressed because of the extraordinary strength of the U.S. unit, he said.

A stronger Hongkong dollar would aid any decision towards further reductions.

In light of exchange rate considerations, the differential between the Hongkong and U.S. prime is "about right," Mr Brown said.

The market will find its own level, he added.

Exchange rate factors proved a cause of concern to several analysts.

They questioned the wisdom of the move while the Hongkong dollar remains below its HK\$7.80: US\$1 peg.

The Hongkong dollar was steady in late trading yesterday, following rumours of a possible cut in prime.

It closed the day at \$7.8315/25 against the greenback compared with an early \$7.831/40.

The new deposit rates are: savings: nine percent (11), 24-hours call/notice: 9.5 percent (11.5), seven-day call: 9.5 percent (11.5), one-week: 9.5 percent

(11.5), two weeks: 9.5 percent (11.5), one month: 10 percent (12), two months: 10 percent (12), three months: 10.5 percent (12.5), six months: 10.5 percent (12.5), nine months: 10.5 percent (12.5), and 12 months: 10.5 percent (12.5).

The Hang Seng Bank has also issued a notice stating that interest rates on new mortgages will drop two percent to 16.5 percent a year.

The Hang Seng prime rate was also cut to 15 from 17 percent, bringing it in line with both the Hongkong and Shanghai Banking Corp. and the Chartered Bank.

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HONG KONG TRADE STATISTICS SHOW INCREASED EXPORTS

HK180512 Hong Kong SOUTH CHINA MORNING POST in English 18 Jul 84 Business News Supplement p 1

[Article by financial editor Michael Blendell]

[Text] Hong Kong's exports of domestic goods to the U.S. soared 62 percent to \$22.2 billion during the first five months of this year while those to China rocketed an even more impressive 84 percent to \$3.7 billion.

According to official statistics released yesterday, the UK accounted for a 41 percent jump to \$3.7 billion between January and May while Australia's off-take of Hong Kong's exports leapt 61 percent to \$1.4 billion.

Useful increases in domestic exports were, in fact, registered to all Hong Kong's major markets with West Germany up 39 percent at \$3.6 billion, Japan up 43 percent at \$1.8 billion, Canada up 35 percent at \$1.6 billion, Singapore 35 percent up at \$1.1 billion, Netherlands 26 percent up at \$889 million, and Switzerland 33 percent up at \$774 million.

Substantial increases in terms of U.S. exports were recorded in clothing (up 61 percent), office machines and automatic data processing equipment (up 100 percent), and electrical machinery, apparatus, and appliances and parts (up 66 percent), although decreases were recorded in transistors and diodes (off 57 percent), and metalliferous ores and metal scrap (down 94 percent).

Clothing also registered a strong gain (43 percent) in terms of domestic exports to the UK, as did office machines and automatic data processing equipment (730 percent), and telecommunications and sound recording/reproducing apparatus (97 percent) with downturns in metalliferous ores and metal scrap (off 58 percent), and general industrial machinery and equipment and parts (34 percent).

Most commodities exported to China increased in value, including textiles (up 59 percent), telecommunications and sound equipment (120 percent) and electrical goods (159 percent).

Feedstuffs for animals dropped 61 percent and office and stationery supplies plunged 54 percent.

China and the U.S. also featured strongly in the territory's re-export markets with the former accounting for 144 percent more at \$8.3 billion and the latter 70 percent more at \$4.6 billion.

As with domestic exports, all Hong Kong's major markets for re-exports--with the exception of Indonesia (nine percent lower at \$1.6 billion)--recorded strong growth with Taiwan 74 percent better at \$2 billion, Singapore 16 percent up at \$1.9 billion, Japan 76 percent better at \$1.8 billion, South Korea 55 percent higher at \$1.4 billion, Macau 33 percent better at \$952 million, Australia 83 percent up to \$547 million, and Thailand 26 percent higher at \$527 million.

Demand for imported goods from China remained strong with increases apparent in textiles (115 percent up), clothing (65 percent), textile fibres and their wastes (262 percent), telecommunications equipment (152 percent), and live animals, chiefly for food (16 percent).

Increases in imports from the U.S. were mostly electrical machinery, office machines, and textile fibres, while imports of petroleum and petroleum products declined a mighty 95 percent.

As for imports from Japan, electrical machinery rose 68 percent and textiles 46 percent.

Total merchandise trade for the January-May period, valued at \$166.9 billion, jumped 45 percent compared with trade for the corresponding period last year.

Domestic exports rose 47 percent to \$50.3 billion, imports 40 percent to \$86.2 billion, and re-exports 56 percent to \$30.5 billion.

Domestic exports and re-exports showed 50 percent growth over the five-month period as the visible trade gap continued to narrow significantly.

Hong Kong's much-vaunted export boom is clearly well underway on these trade statistics, but it is equally obvious from the latest money supply statistics that exporters are spinning precious few benefits from this boom back into the domestic economy.

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